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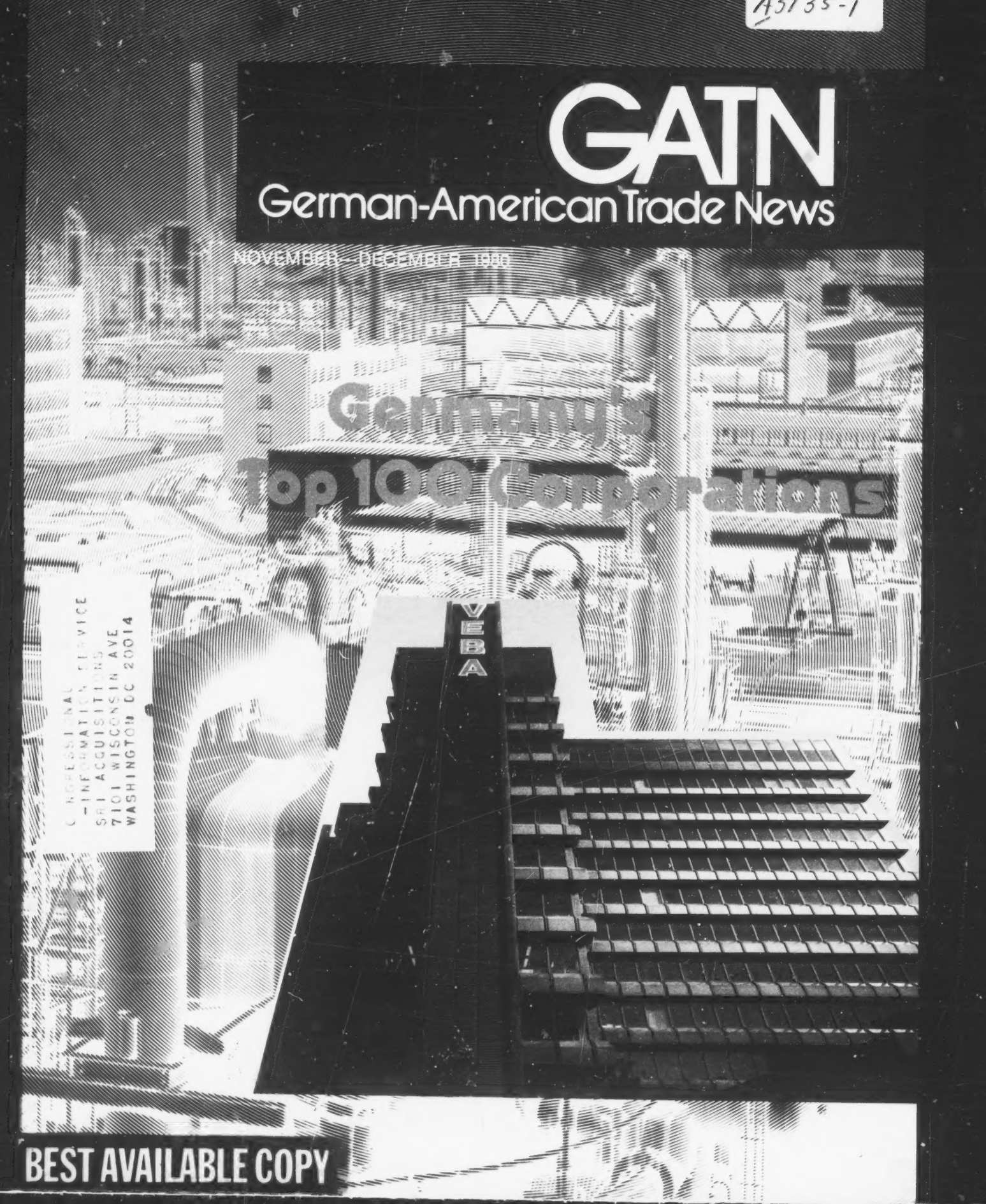
GATN

German-American Trade News

NOVEMBER–DECEMBER 1980

Germany's Top 100 Corporations



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Mercedes-Benz announces the next logical step.

Via masterful aerodynamics and 63 other engineering advancements, Mercedes-Benz has restated its definition of the ultimate gasoline and diesel sedans in the world of the 1980's.

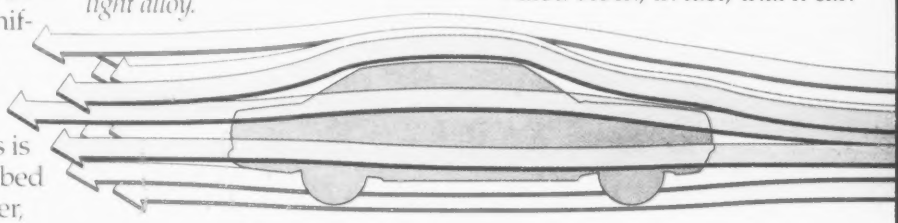
Consider the bodywork of the new 380 SEL and the 300 SD Turbodiesel: a capsule of aluminum and steel and glass, so aerodynamically pure that its 0.36 drag coefficient eclipses every sedan—and virtually every sports car—sold in America today. Yet the magnificent comfort expected of a flagship Mercedes-Benz sedan is preserved.

Under the aerodynamics is a new unit body, honeycombed with aluminum and a thinner, lighter, stronger steel. Weight is saved while structural strength is increased.

Within shorter overall length than their predecessors, both 380 SEL and 300 SD boast *longer* wheelbases, less mass—yet a smoother ride.

The next logical engine

The 380 SEL's new V-8 engine epitomizes the move to 1980's priorities. At only 3.8 liters it is smaller than any domestic V-8; and its block is cast not in iron but silvery *light alloy.*



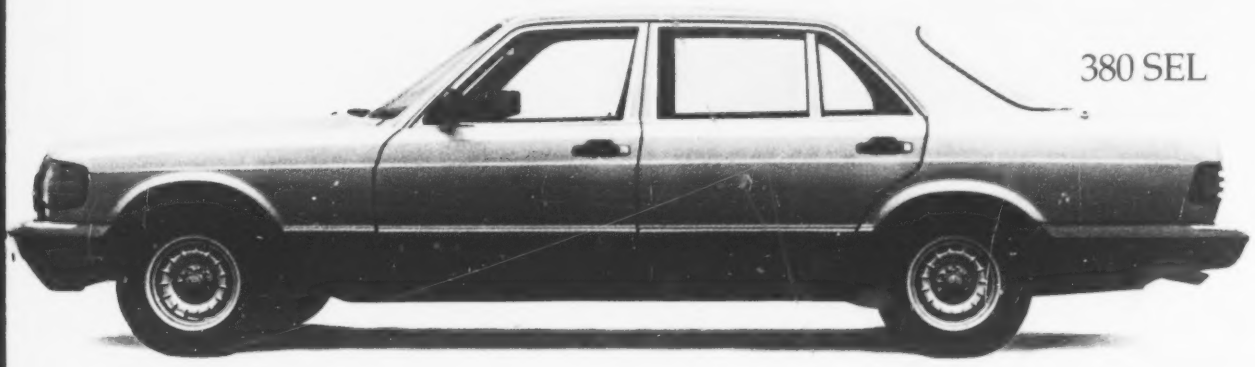
Aerodynamic efficiency matched by no sedan—of any size.

A superb power-to-weight ratio results. And an engine designed for the realities of the times is also one of the most potent in any 1981 automobile.

Credit advanced metallurgy for the fact that its strength and durability compare with iron block engines. The block is cast under low pressure, in one piece, in an intricate "closed deck" process. (So hard is the silicone-impregnated block, in fact, that it can be machined only by tools with *diamond* tips.)

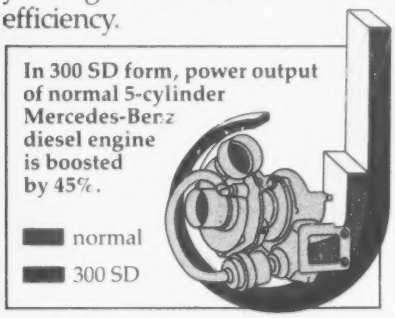
Quicker to 55 mph

The five-cylinder turbocharged 300 SD Turbodiesel



keeps its title of world's most powerful diesel sedan. Without yielding a mote of diesel efficiency.

In 300 SD form, power output of normal 5-cylinder Mercedes-Benz diesel engine is boosted by 45%.



Both cars can accelerate faster from zero to 55 mph than their predecessors: less weight, less aerodynamic drag—and a new four-speed torque-converter automatic transmission, programmed for more precise shifting. It also functions smoother than any Mercedes-Benz automatic before.

All this advanced technology is borne over the road with the poise and stability unique to the automobiles of Mercedes-Benz. Glib claims abound, but no maker has yet proven its cars to be more roadworthy.

Measurably quieter

A concerted noise abatement program has made the 380 SEL and 300 SD quieter-running cars. Engine noise, for instance, is further muffled by a *double* firewall under the hood.

Interior layout is a sweep of ergonomically correct design, clean and uncluttered. Amenities have been increased to include a new electric eight-way seat adjustment for driver and front passenger. It is shaped like a seat, operates by touch, and lets you shift your seating position without glancing away from the road.

The 300 SD furnishes sublime comfort for five. The slightly longer wheelbase 380 SEL provides sybaritic rear seat accommodation.

Progress shows on almost every front. Careful modifications in body design and interior fittings reflect a new peak in safety consciousness by the conscientious engineers of Mercedes-Benz.

Most capable cars in 95 years

These two models are introduced in confidence that, inch for inch and pound for pound, they are the most capable in Mercedes-Benz history.

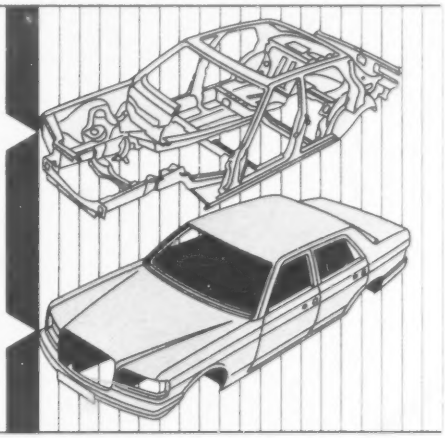
They are designed and built to fulfill the demands of the eighties—and the demands of Mercedes-Benz.

A formidable challenge. A formidable result.

The science of the automobile body advances; new unitized structure is made simultaneously lighter and stronger.

High-strength lightweight steel is utilized in floor pan of unit body—helping form not only a lighter structure, but one that can bear far heavier loads than even its rugged predecessor.

Thinner-profile windshield "A" pillars that actually help to strengthen roof support are typical of 380 SEL and 300 SD's computer-designed body shell. Hood and trunk lid are aluminum.



Engineered like no other car in the world

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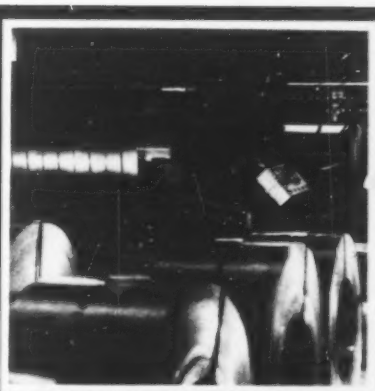
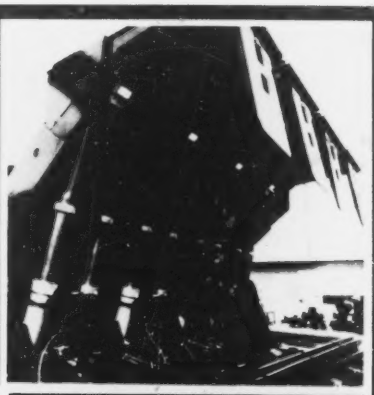
THYSSEN



Our Activities



1
Domestic Steel Sales Divisions

Thyssen Steel/East · New York
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Thyssen Steel/West Coast
Los Angeles
Rolled Steel Mill Products
Wire and Wire Products

Thyssen Specialty Steels
New York
Stainless, Tool and
Bearing Steels

5
Industrial Products Divisions

Thyssen Rheinstahl Technik · New York
Equipment, Machinery, Industrial Products
(Specialty Chains, Forgings, Castings)
Equipment and Parts for Offshore Rigs
and Platforms · International Industrial
Construction Services

Thyssen Mining Equipment
Marion, IL
Longwall and Related Mining Equipment

2
Steel Service Centers

Thyssen Steel Detroit Co.
Thyssen Metal Service/Southeast
Fort Lauderdale
Thyssen Metal Service/Southwest
Houston
Thyssen Metal Service/West Coast
Long Beach
Thyssen Specialty Steels
Chicago and Wallingford, CT

3
International Trading Export Divisions

Thyssen International · New York

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THYSSEN INC.
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THYSSEN SPECIALTY STEELS, INC.
3415 North Runge Avenue
Franklin Park, Illinois 60131
Telephone: (312) 451-0670
Telex: WU 28-3593 · Cable: Specsteels

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GATN
German-American Trade News

Werner Walbrol
Executive Director

Richard Jacob
Editor

Magdalena Wolf
Circulation

Benigna Kirsten
Advertising

The **German American Trade News** is published bimonthly by the German American Chamber of Commerce, Inc., 666 Fifth Avenue, New York, New York 10103 and also distributed at regional Chambers in Atlanta, Chicago, Houston, Los Angeles, San Francisco and Washington, D.C. Subscriptions in the United States and Canada $9.00 per year, $18.00 for 3 years, other countries $12.00 yearly, overseas airmail $24.00 per year. Single copy price $1.50. For change of address, please give old as well as new address including zip code (if possible, enclose address label from magazine). Allow 4-6 weeks for change.

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Produced by World Composition Services, Inc., 432 Park Ave. So., New York, NY 10016. Controlled circulation paid at New York, New York.

Address all correspondence and inquiries to German American Chamber of Commerce, Inc., 666 Fifth Avenue, New York, New York 10103, Tel. (212) 974-8830.

Chamber Commentary

Playing the foil

This business year is winding down with considerably more grace and certainly with less dissonance than seemed likely at this time last year. Not that the consensus was notably pessimistic. Rather, the unusually high number of economic uncertainties were compounded by the unknowns attending an incipient recession and the upcoming Presidential election in the United States and the flagging stamina of business activity in Europe.

Well, the recession here has not been particularly harsh so far, the long campaign ended with an unexpected mandate for both a President and his party, and Europe's economies have turned in a remarkably stable performance. Within our own area of special interest, U.S.-German trade is clearly heading for yet another record year, again with a strong surplus in favor of the U.S. German confidence in the future of the American economy will also be endorsed in the form of another banner year for German direct investment, which promises to eclipse 1979's record by some 20 percent.

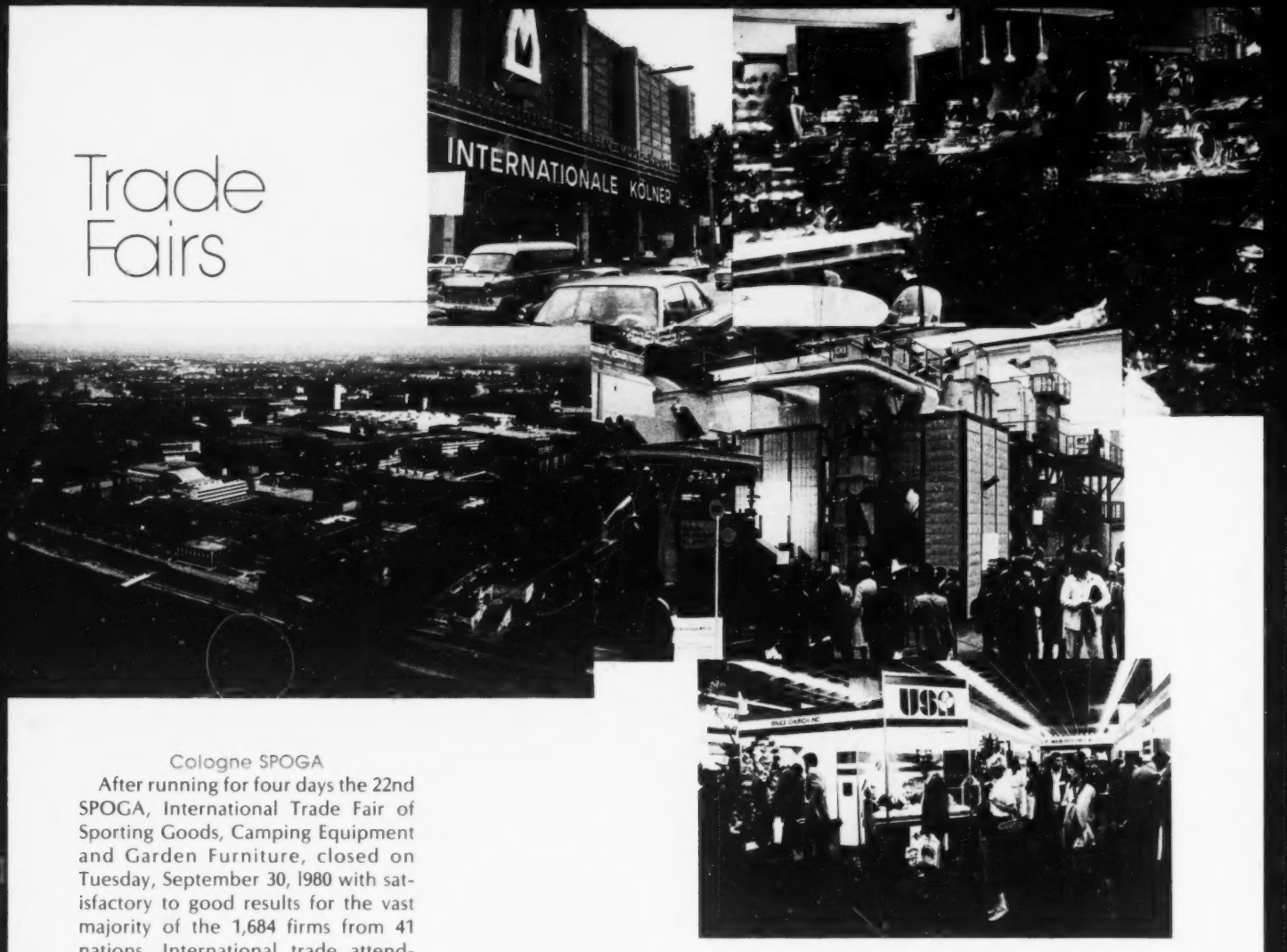
Protectionism has had its victories but they have been small and cheap. Its major defeat, though, was a powerful one when the International Trade Commission in Washington rejected the plea of Ford Motor Co. and the UAW for protection against Japanese auto imports.

By this action, the ITC may have prevented a major trade conflict involving the U.S., Japan, and the E.C. Japanese auto exports have made steady inroads in the European market over the last two years, and the hurt is becoming palpable. In Germany's unrestricted market, the Japanese have come from almost nowhere 24 months ago to capture just under one-tenth of the market this year. Restrictions on Japanese car imports into the U.S. would probably have deflected significant shipments to Europe, provoking outrage and maybe retaliation. So far, so good, but the last bar has yet to be written to this tune.

The European Community's trade deficit with Japan will almost surely exceed $10 billion by the end of this year, nearly double Japan's trade surplus with the E.C. in 1979. This year America's total foreign trade—exports and imports combined—will come to some 25 percent of its GNP, twice the comparable figure for 1970.

Somewhere between these two disparate figures lies a story. Up to now the U.S. has been Japan's major export market, and seems to have absorbed a lesson along with the products, with a little lubrication from OPEC. Europeans have long been accustomed to delivering lectures on the virtues of high quality at affordable prices. Japan is sending just that to Europe in the form of consumer electronics and cars, and the Europeans are finding the competition stiff. Let's hope that the Japanese will continue to play the foil to our inadequacies and not fuel protectionist fire walls.

Trade Fairs



Cologne SPOGA

After running for four days the 22nd SPOGA, International Trade Fair of Sporting Goods, Camping Equipment and Garden Furniture, closed on Tuesday, September 30, 1980 with satisfactory to good results for the vast majority of the 1,684 firms from 41 nations. International trade attendance of a very high standard, brisk contacts and inquiries as well as a mainly good to satisfactory flow of orders were notable features of the fair. Despite the stocks still held by certain sections of the trade owing to the poor summer weather, good orders were placed in Cologne so that there is a confident outlook about future sales opportunities.

Overall attendance at SPOGA '80 was on about the same level as for last year's SPOGA, totalling 33,000 trade visitors from 84 nations, including 15,000 foreign visitors. Foreign attendance revealed a slight increase due to the presence of additional buyers from overseas, accounting for 45% of all visitors. From the U.S.A. there were 74 firms taking part in the fair, 13 of them on a group exhibit organized by the German-American Chamber of Commerce, New York.

COLOUR 81

The International Trade Exhibition COLOUR 81 to be held in Cologne from March 26 to 29, 1981 is awaited with great confidence by the relevant groups of trade and industry. This exhibition gives a full review of production and application techniques of the paint and varnish industry, of the surface coatings, coverings, adhesives and wallpaper industry as well as showing the products produced by manufacturers of the appropriate tools, machines, equipment and plant. Even at this stage it is apparent that this trade exhibition next spring will provide a climax in events for this sector.

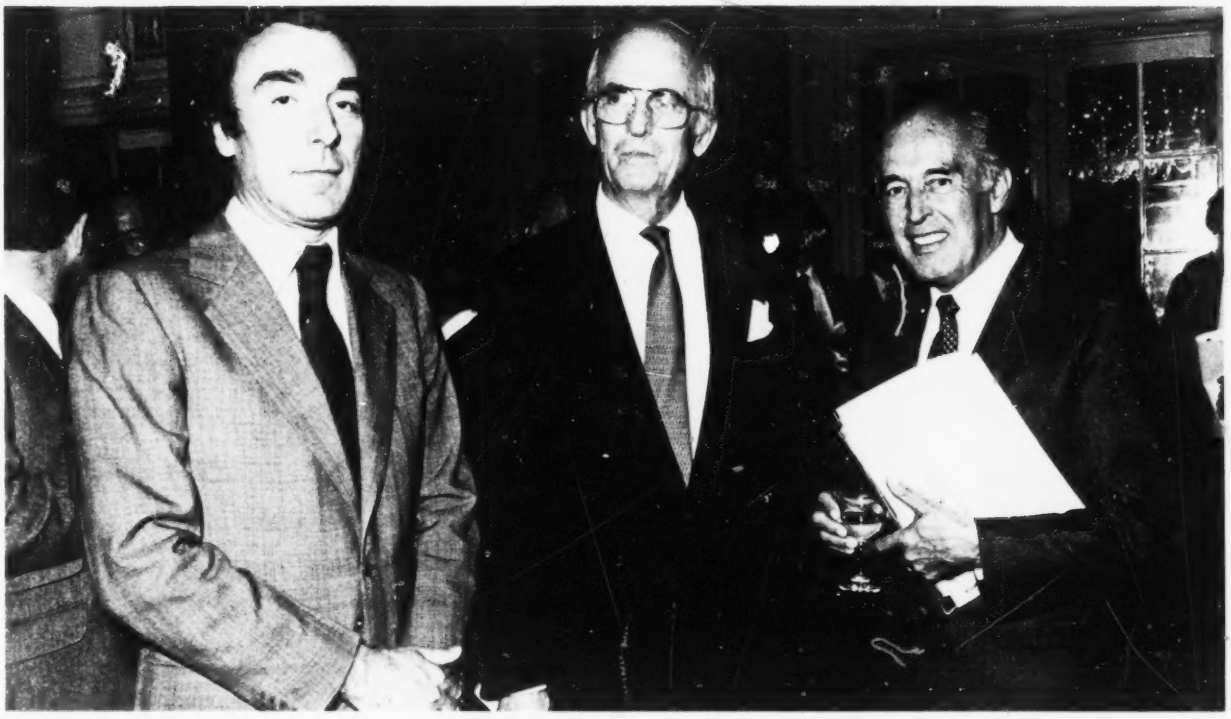
The reason for this optimism is the fact that it has again been possible to win *all* the special groups connected in some way or other through their professions with color for a presentation of their products at this trade exhibition. A much clearer picture of the market will be provided in this way. In addition, 218 firms from 14 countries have already confirmed their participation, 6 months before the exhibition opens.

Of this total, 25 firms are from countries other than Germany. Holland and Switzerland will be well represented at the exhibition but applications have also been received from the U.S.A. and Hungary. Many other definite applications for participation have also been received from Germany and other countries. In view of this big demand the display area will be very much larger than at the last exhibition.

8th DOMOTECHNICA

Nearly 600 firms will take part in the 8th DOMOTECHNICA—International Fair for Household Appliances, Fittings and Components—according to space applications received to date. DOMOTECHNICA is to be held in Cologne from Wednesday, 11th to Saturday, 14th February 1981. Existing reports indicate that more than 40% of all exhibitors come from abroad. The strongest foreign contingents are provided by Italy, the United Kingdom and France - in that order. All

At
The Chamber



The Chamber sponsored a reception and luncheon on October 20 at the Plaza Hotel for members and invited guests. The guest of honor and featured speaker was Dr. Guenter Winkelmann, Chairman of the Board of Stinnes AG. Above, left to right: Werner Walbrol, Executive Director, GACC; Dr. Winkelmann; and Karlfried Nordmann, President, Mercedes-Benz of North America.

On September 23, Otto Wolff von Amerongen, Chairman of the German National Chamber of Commerce and Industry, was host for a luncheon at the "21" Club for a small group of representatives of the American business and financial community. Below, left to right: Walter Brown, Partner, Brown Brothers Harriman & Co.; John J. McCloy; Otto Wolff von Amerongen; and Ellmore Patterson, past Chairman, Morgan Guaranty Trust Co.

the leading marketing firms in this sector from Germany and other countries will be represented at DOMOTECHNICA.

The new Cologne exhibition hall 10 will be available for the first time at a DOMOTECHNICA fair. The ground and first floors of the new hall 10 will be ready for use a few weeks before DOMOTECHNICA opens. This hall replaces the old halls 10 and 15 of the Cologne trade fair centre and has a gross floor space of about 323,000 sq.ft. (over 30,000 sq. metres). A total of about DM 78.5 million has been invested in the new building, including a connection between hall 10 and halls 13 and 14. This link between the new hall 10 and the modern hall 14 enables visitors to the 8th DOMOTECHNICA to pass freely from one hall to the other.

The 7th Cologne DOMOTECHNICA in 1980, at which there were 554 exhibiting firms from 28 countries, was attended by 37,000 trade visitors from 64 nations. Of this total 13,400 were foreign trade visitors, accounting for 36% of total attendance.

Record IFMA in Cologne

At the end of its five day run the 14th IFMA, International Bicycle and Motor Cycle Exhibition, closed its doors on Tuesday, September 23, 1980 with satisfactory to very good business results for its exhibitors. The fair, which was opened by Kurt Gscheidle, Federal Minister of Transport, was notable for the continuing boom in demand for cycles of all kinds. The vast majority of the 963 firms from 34 nations participating in the exhibition reported good business, a large number of new contacts with buyers from the Federal Republic of Germany and other countries as well as very keen interest shown by visitors.

A total of 230,000 visitors from 67 nations came to Cologne during the five days of IFMA, 24,000 of them from countries other than Germany. Home attendance was 12%, foreign attendance 30% up on the last IFMA two years ago.

The exceptionally large number of trade visitors and cycle enthusiasts from home and abroad attending the exhibition is regarded by many exhibitors as a clear indication of the optimistic outlook for sales by the cycle and cycle parts industry.

855 direct exhibitors and another 108 represented firms from 34 countries took part in the exhibition on a gross floor space of 712,310 sq.ft. (66,200 sq. meters). This total included 321 direct exhibitors and a further 12 represented firms from the Federal Republic of Germany, one foreign trade organization and 4 represented firms from the GDR (German Democratic Republic) as well as 533 direct exhibitors and another 92 represented firms from other nations.

6th European Microfilm Convention

A special event due to be held at the Cologne trade fair centre from Tuesday, 29th September to Friday, 2nd October 1981 is the 6th European Microfilm Convention—EMK.

With its program, a synthesis of convention and trade exhibition, the 6th EMK will underline the importance and application of microfilm as an information processing module. Proof of its economy, dependability and compatibility with other media will also be provided.

The program of the 6th EMK furnishes full information on the microfilm and its application. It includes symposiums, branch-related and problem-orientated seminars as well as the provision of information for students and trainees. The trade exhibition coordinated with the 6th EMK gives a full review of microfilm systems, microfilm accessories and microfilm organization in various areas, also practical demonstrations. The convention program is arranged in such a way that just as much time is available for attending the seminars and symposiums (in the mornings) as for visiting the exhibition. ■

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- [illegible] Systems

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- Numerical Controls for Machine Tools
- Color Scanners
- Electronic Engraving Machines
- Offset Presses
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- High Voltage Motors
- Motors and Controls to [illegible]

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- Automatic Test Equipment for Disc Memory and Semiconductor Devices
- Measuring Instrumentation
- Automotive Test Equipment
- Communications and Communications Measuring Equipment
- X-Ray Diffraction Equipment
- X-Ray Spectroscopy Equipment

ELECTRONIC COMPONENTS

- Capacitors
- Ferrites and Accessories
- Memory Products
- NTC/PTC Thermistors
- RFI Components
- Germanium, Silicon Transistors
- Zener, Varactor Diodes
- Hall Generators
- Integrated Circuits
- [illegible]

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Responsible growth is contributory, not merely competitive. This philosophy has guided Siemens well in its 130-year growth to become one of the world's largest electrical engineering firms with annual sales exceeding $16 billion.

Siemens in America, backed by world-wide manufacturing and technological resources as well as by increasing U.S. manufacturing and product development facilities, is thus able to offer the highest quality products reflecting the best of European craftsmanship and American know-how.

Everything that we offer is in turn solidly supported by a nationwide network of sales and service offices.

Electrical and electronic components, instruments, and systems for medicine, science and industry are the areas in which we have adapted the best of these products to the demands of the U.S. market.

Today Siemens Corporation and its consolidated companies employ about 8,000 people and report sales of more than $400 million. And if we were to include other affiliated companies and joint ventures, the totals would increase significantly.

The Siemens response to the American market is broadly beneficial to our growing American family of employees, business associates, and customers. We are pleased not only to compete today, but to contribute today *and* tomorrow—responsibly.

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Germany's Top 100 Corporations

GATN

For the fifth year in a row Veba commands the premier position among Germany's top 100 corporations, ranked according to revenues. In the process of maintaining its leading position, it also managed to widen the gap between itself and its closest competitors: prestigeous names like Volkswagen, Siemens, BASF, and Daimler are now further behind than ever before. The leap in petroleum prices last year was the key element in this surge for the energy and chemicals giant, as it was for the burgeoning revenues of almost all other oil companies on the list. In fact, its direct and indirect impact on income was the Leitmotiv of the 1979 revenues derby.

In no previous year has the real cost of oil to Germany ever risen so steeply as in 1979. Until last year, the effect of the aggressive price policies pursued by the OPEC nations since 1974 was cushioned in Germany by the concomitant depreciation of the dollar. The weakness of the dollar meant that the effective delivery price of oil (f.o.b.), converted into marks, did not rise nearly as sharply as the world market price, which is set in dollars. In 1978, for instance, petroleum was actually cheaper on average for German customers than the year before.

The relatively stable relationship of the dollar and the mark last year changed this scenario abruptly, and the new price increases in dollar-denominated contracts translated themselves directly in German accounts. On average the price of crude oil in 1979 jumped by 30 percent; by the end of the year, German customers were paying a full 70 percent more for oil than at the beginning of the year. The consequence was hefty price hikes for refined oil products. And therein lies the main reason for the robust revenues of Germany's oil companies in 1979.

Oils in the vanguard

In all, revenues from Veba's oil business and those of the other eight oil companies on the list increased by DM 20 billion last year over 1978 (DM 77 vs. DM 57 billion). In other words, income ballooned by over one-third (35 percent), a growth rate almost three times as high as the average 12 percent registered by the other firms in the top 100. Clearly, the oils carry more weight now than ever before in this elite group. Practically every one of them advanced several notches, with a few passing ten or more on their path upwards. Annual gains of this dimension have seldom been witnessed in the "top 100" region before.

A similar situation prevails in the United States and in other industrial nations: the oil refiners were on the move, seven of them having moved into the ultra-select top 10 in the world. The trend is typified by Exxon, which last year dislodged General Motors, the perennial leader in the American "Fortune 500" revenues competition. A dramatic reversal of this order and quality has yet to occur in Germany. In any case, Veba does not qualify as a distinct parallel since it is not a pure oil company. Its petroleum business, which assumed even greater importance with the acquisition of Gelsenberg, represents only

Germany's Largest Employers

Rank	Name	Employees 1979
1	Siemens	334 000
2	Volkswagenwerk	239 714
3	Hoechst	182 688
4	Bayer	181 000
5	Daimler-Benz	180 704
6	Thyssen	157 317
7	AEG	154 300
8	Ruhrkohle	134 216
9	Bosch	120 487
10	BASF	117 168

26.5 percent of total sales. Its other sources of revenue derive from electric utilities (16.9 percent), trade (31.8), and chemicals (17.1), a line of business which has been strengthened by the recent acquisition of Chemische Werke Huels.

We first encounter pure oil companies in positions No. 10, 11, and 14. Each of them in turn would have to add DM 8 to DM 10 billion in annual revenues to penetrate the phalanx of the leading eight firms. This is scarcely conceivable, even if we assume future price increases of some magnitude for oil and oil by-products. Indeed, the acquisition route represents the only conceivable means of bridging the revenues chasm within the foreseeable future. This strategy paid off handsomely for Deutsche BP, whose 75 percent leap in sales last year was substantially attributable to refining facilities purchased from Veba.

Analysts operating in terms of comparisons on the international business scene must also note that published revenues for the German companies include crude and heating oil taxes, whose magnitude is often difficult to calculate from annual reports. A few examples should suffice to illustrate how this accounting item skews oil revenues. Based on an extrapolation from the net profit line, subtraction of this item would have reduced total revenues substantially for Deutsche BP (- DM 4 billion), by DM 3 billion each for Shell and Esso, and by DM 2 billion in the case of Veba. In other words, Shell, BP, and Esso would have slipped from positions 10, 11, and 14 respectively to somewhere between 15 and 20.

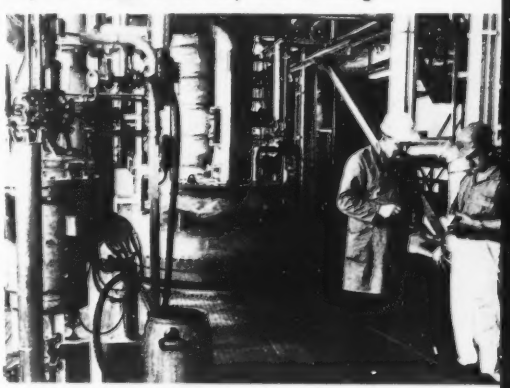
RANK 1979	RANK 1978	FIRM	PRODUCTS	SALES in mil. DM 1979	SALES in mil. DM 1978	EMPLOYEES in 1000 1979	EMPLOYEES in 1000 1978
1	1	**Veba**	Holding company	36 606	31 177	81.4	81.9
2	3	**Volkswagenwerk**	Cars, trucks	30 707	26 724	239.7	206.9
3	2	**Siemens**	Electrical equipment	28 072	29 009	334.0	322.0
4	7	**BASF**	Chemicals	26 022	23 254	117.2	115.4
5	4	**Daimler-Benz**	Cars, trucks	27 367	24 236	180.7	173.2
6	5	**Hoechst**	Chemicals	27 080	24 191	182.7	180.7
7	8	**Bayer**	Chemicals	26 003	22 836	181.0	179.0
8	6	**Thyssen AG**	Iron, steel	25 358	23 459	157.3	159.9
		Volkswagenwerk (No. 2)		24 257	22 383	115.4	108.4
		Siemens (No. 3)		22 455	23 462	*	*
		Thyssen (No. 8)		21 076	19 212	128.6	129.9
		BASF (No. 4)		20 498	17 000	*	*
9	9	**Kloeckner Group**	Steel, machinery	17 589	14 573	74.6	72.4
10	17	**Deutsche Shell**	Petroleum	17 036	11 893	*	*
		Veba Oel AG (No. 1)		16 523	9 848	23.4	11.6
11	21	**Deutsche BP**	Petroleum	16 484	9 528	4.3	4.2
12	13	**Ruhrkohle**	Coal	16 222	12 488	134.2	136.5
13	11	**RWE**	Utility	15 669	12 778	65.4	58.3
14	15	**Esso AG**	Petroleum	15 275	12 076	4.4	4.5
15	10	**AEG-Telefunken**	Electrical equipment	14 208	14 097	154.3	162.6
		Hoechst (No. 6)		14 097	13 076	*	*
		Bayer (No. 7)		13 662	12 100	*	*
16	14	**Gutehoffnungshuette**	Iron, steel, machinery	13 617	12 401	84.6	84.4
17	16	**Krupp**	Mining, steel, machinery	12 787	11 899	86.2	84.7
18	12	**Mannesmann**	Mining, iron, steel	12 500	12 670	105.8	105.7
		AEG-Telefunken (No. 15)		11 929	12 024	*	*
19	18	**Adam Opel AG**	Cars, trucks	10 950	10 642	*	54.8
20	19	**Ford-Werke AG**	Cars, trucks	10 911	10 475	57.8	58.3
21	20	**Robert Bosch GmbH**	Electrical equipment	10 804	9 618	120.5	117.8
		Mannesmann (No. 18)		10 443	10 641	*	*
		Gutehoffnungshuette (No. 16)		10 238	9 479	*	*
22	22	**Quandt Group**	Industrial holding	10 200	9 200	*	*
		RWE (No. 13)		9 082	8 212	21.9	21.5
23	24	**Flick Group**	Industrial holding	8 740	7 624	46.9	45.9
24	23	**Metallgesellschaft**	Mining, metals, chemicals	8 600	8 000	*	*
		Wintershall (No. 4)		7 900	6 600	16.7	17.0
		Metallgesellschaft (No. 24)		7 891	7 117	27.3	27.3
25	27	**Hoesch-Werke**	Steel	7 658	6 538	49.1	47.4
26	25	**Deutsche-Unilever**	Fats, oils, soaps	7 614	7 307	35.0	34.8
		BMW (No. 22)		7 407	6 557	41.9	39.8
27	30	**Deutsche Texaco**	Petroleum	7 359	5 885	4.8	5.3
28	26	**Salzgitter**	Mining	7 195	6 724	55.7	50.1
		Bosch GmbH (No. 21)		7 181	6 353	63.1	61.2
		MAN (No. 16)		7 070	6 727	62.3	62.1
29	33	**Mobil Oil in Deutschland**	Petroleum	6 793	5 174	2.4	2.4
30	28	**IBM Deutschland**	Business machines, typewriters	6 593	6 318	26.5	26.0
31	29	**Reemtsma**	Tobacco products	6 415	6 264	14.1	13.8
32	32	**Ruhrgas**	Gas, utility	6 244	5 493	*	*
33	31	**Henkel Group**	Chemicals	6 138	5 602	32.7	33.3
34	34	**Degussa**	Metals, chemicals	6 058	4 983	20.5	20.2
35	38	**Philipp Holzmann AG**	Construction	5 774	4 197	41.1	27.5
		Huels (No. 1)		5 479	2 673	22.5	16.3
		Degussa (No. 34)		5 408	4 496	12.9	12.7
		Krupp Huettenwerke (No. 17)		5 284	4 437	40.3	37.6
		Fried. Krupp (No. 17)		5 200	5 036	*	*
		Audi NSU (No. 2)		5 171	4 509	29.8	28.5
		Preussenelektra (No. 1)		5 066	4 613	14.9	14.8
		Kloeckner Werke (No. 9)		5 016	4 244	31.7	30.8
36	35	**Hochtief AG**	Construction	5 014	4 303	31.5	31.1
37	40	**Saarberg Group**	Mining	5 002	3 821	30.8	29.3
		Buderus (No. 23)		4 888	4 303	22.8	22.2
		Mannesmannroehren (No. 18)		4 514	4 305	31.4	33.2
38	42	**Viag**	Holding company	4 302	3 398	24.6	22.2
		KHD (No. 9)		4 250	3 739	31.5	31.3
39	36	**Deutsche Philips**	Electronics	4 213	4 204	29.0	29.5
40	37	**Enka-Glanzstoff**	Chemicals, textiles	4 100	4 200	*	*
		Thyssen Industrie (No. 8)		4 049	4 106	39.4	40.4
41	43	**Deutsche Babcock**	Machinery	4 031	3 357	28.72.5	
42	39	**B.A.T. Cigaretten Fabriken**	Tobacco products	3 995	4 012	3.9	3.8
43	41	**Brown, Boveri & Cie**	Electrical equipment	3 968	3 784	27.2	26.0
		UK Wesseling (No. 13)		3 748	2 594	*	*
		Henkel KGaA (No. 33)		3 666	3 392		
		Agfa-Gevaert (No. 7)		3 616	3 434	32.0	32.3
44	44	**Vereinigte Elektrizitaetswerke Westfalen (VEW)**	Utility	3 398	3 143	7.5	7.0
		Kraftwerk Union (No. 3)		3 200	5 500	17.6	18.1
		Saarbergwerke (No. 37)		3 189	2 289	22.8	21.5
45	49	**Preussag**	Petroleum, mining, machinery	3 179	2 684	16.8	17.3
		Brown, Boveri (No. 43)		3 128	3 038	*	*
46	47	**Standard Electric Lorenz (SEL)**	Electrical equipment	3 117	2 797	33.0	33.1
47	46	**Deutsche Saint-Gobain Group**	Glass	3 036	2 777	*	*
48	55	**Suedvieh-Suedfleisch Group**	Meat, livestock	3 004	2 374	*	*
49	64	**Elf Mineraloel**	Petroleum	2 952	2 029	*	*

RANK 1979	RANK 1978	FIRM	PRODUCTS	SALES in mil. DM 1979	SALES in mil. DM 1978	EMPLOYEES in 1000 1979	EMPLOYEES in 1000 1978
50	51	Werhahn Group	Industrial holding company	2 900	2 641	·	·
51	48	Brinkmann	Tobacco products	2 786	2 756	4.6	4.6
52	50	Deutsche Nestle	Coffee, cocoa	2 769	2 648	12.8	13.0
53	45	Grundig	Electronic equipment	2 750	2 956	36.0	39.0
54	53	Oetker	Food products	2 727	2 471	11.9	11.8
		VAW (No.38)		2 721	2 224	16.9	16.5
55	57	Deutsche Solvay Group	Chemicals	2 705	2 257	14.5	14.1
56	59	Schering	Pharmaceuticals	2 703	2 226	20.2	18.1
57	60	Messerschmitt-Boelkow-Blohm	Aircraft	2 660	2 117	24.5	22.3
58	63	Conti-Gummi	Rubber products	2 623	2 032	·	·
		Mannesmann-Demag (No. 18)		2 592	2 321	22.8	22.6
59	54	Boehringer Ingelheim	Pharmaceuticals, chemicals	2 583	2 382	21.2	20.7
60	65	Ruetgers	Synthetics	2 527	2 015	·	·
		Dynamit-Nobel (No. 23)		2 474	2 037	14.9	14.6
		Thyssen Edelstahl (No. 8)		2 461	2 163	16.2	16.0
		Peine-Salzgitter (No. 28)		2 444	2 252	16.9	17.4
61	52	Stahlwerke Roechling-Burbach	Iron, steel	2 415	2 112	22.0	21.2
62	73	Korf Group	Holding company	2 350	1 807	·	·
63	58	Bilfinger + Berger	Construction	2 301	2 246	·	·
64	56	Polygram	Records, tapes	2 275	2 370	·	·
65	67	Strabag Bau AG	Construction	2 257	1 945	19.4	19.8
66	68	Zahnradfabrik Friedrichs-hafen	Machinery	2 243	1 936	22.9	20.7
		Rheinische Olefin (No. 4)		2 230	1 606	3.4	3.5
67	61	Bayernwerk	Utility	2 227	2 085	·	·
68	69	Magirus-Deutz AG	Trucks	2 210	1 927	12.6	12.5
69	62	Bosch-Siemens Hausgeraete	Household appliances	2 199	2 084	13.7	·
		Krauss-Maffei (No. 23)		2 183	1 851	5.0	4.9
70	70	Freudenberg	Leather, rubber, plastics	2 095	1 920	23.0	23.0
		Enka AG (No. 40)		2 090	1 870	17.4	17.5
		Steag (No. 12)		2 060	1 628	4.0	4.1
71	66	Carl Zeiss Stiftung	Optical, precision products	2 050	1 945	29.7	29.3
		Ruetgers (No. 60)		2 035	1 567	11.8	10.7
72	71	Linde	Chemicals, machinery	2 012	1 825	15.7	15.3
73	75	Liebherr Group	Heavy machinery, construction	2 006	1 707	12.1	11.1
74	72	Kugelfischer	Ball + roller bearings	1 988	1 824	27.9	28.4
		Mannesmann-Huette (No. 18)		1 971	1 794	10.5	10.5
		Schering (No. 56)		1 960	1 727	·	·
		Rhein. Braunkohle (No. 13)		1 936	1 745	16.1	15.2
		Feldmuehle (No. 23)		1 920	1 781	8.8	8.8
75	84	Papierwerke Waldhof-Aschaffenburg	Paper + paper products	1 897	1 527	11.1	9.8
76	76	Dillinger Huette	Mining	1 868	1 664	5.2	5.3
		C.H. Boehringer Sohn (No. 59)		1 860	1 760	14.4	14.2
77	74	Dyckerhoff & Widmann	Energy, transportation	1 855	1 744	15.4	15.1
78	79	Eschweiler Bergwerksverein	Metals	1 841	1 626	·	·
79		Leybold-Heraeus	Vacuum metallurgy	1 830	1 221	·	·
80	83	Norddeutsche Affinerie	Refined metals	1 822	1 565	·	·
		Preussag (No. 45)		1 811	1 565	·	·
81		Panavia Aircraft GmbH	Military aircraft	1 798	1 231	·	·
82	80	Merck	Pharmaceuticals	1 763	1 619	·	·
83		ITT Gesellschaft fuer Beteiligungen		1 750	1 719	·	14.6
84	81	Deutsche Michelin	Tires	1 746	1 574	·	·
		Wacker (No. 6)		1 743	1 357	·	·
		Carl Zeiss Group (No. 71)		1 735	1 638	·	·
85	96	Philip Morris	Tobacco products	1 727	1 307	·	·
86	99	Deutsche Marathon	Petroleum	1 713	1 253	0.7	0.7
		NWK (No. 1)		1 713	1 544	3.1	3.1
		Kugelfischer (No. 74)		1 666	1 518	22.8	23.0
87	82	Hamburgische Elektrizitaets-werke AG	Utility	1 636	1 573	·	·
		Rheinelektra (No. 13)		1 604	1 419	11.3	11.1
88	90	Deutsche Contigas	Utility, mining	1 590	1 380	·	·
89	94	Du Pont de Nemours	Chemicals	1 577	1 323	·	·
90	89	Benteler	Steel	1 567	1 406	7.9	7.9
91	88	Beiersdorf	Cosmetics, pharmaceuticals	1 565	1 414	·	·
92	85	EVS Energie-Versorgung Schwaben	Utility	1 557	1 440	·	·
93		Joh. Jacobs & Co. GmbH	Coffee and food products	1 538	1 522	·	·
		Lurgi (No. 24)		1 523	1 514	5.0	5.0
		Zahnradfabrik Friedrichs-hafen (No. 66)		1 508	1 346	14.3	13.6
94	91	G. Bauknecht GmbH	Electrical equipment	1 500	1 380	·	·
95		Fina Group		1 482	1 239	·	·
96		VDO Group		1 470	1 240	20.0	18.0
97	86	Tschibo	Coffee	1 459	1 425	·	·
98		Fichtel & Sachs AG	Transmissions	1 458	1 363	17.0	16.7
99	92	Badenwerk	Electronics	1 450	1 355	3.5	3.4
100	87	Melitta-Werke	Coffee, coffee makers	1 439	1 421	·	·

Accounting for differences

Like profits, not all revenues are strictly or even approximately, comparable, and thus hardly ever serve as an objective basis for value judgements. For example, in distinction to their U.S. counterparts, many German industrials own trading subsidiaries, whose sales can have a pronounced effect on year-end revenues. Veba for one would have experienced a shrinkage of DM 11.6 billion to about DM 25 billion, i.e., trading revenues represented the difference between being No. 1 or No. 8. Other industrial corporations with sizeable trading operations, such as Thyssen and Kloeckner, would have also seen noticeable reductions in the sales column.

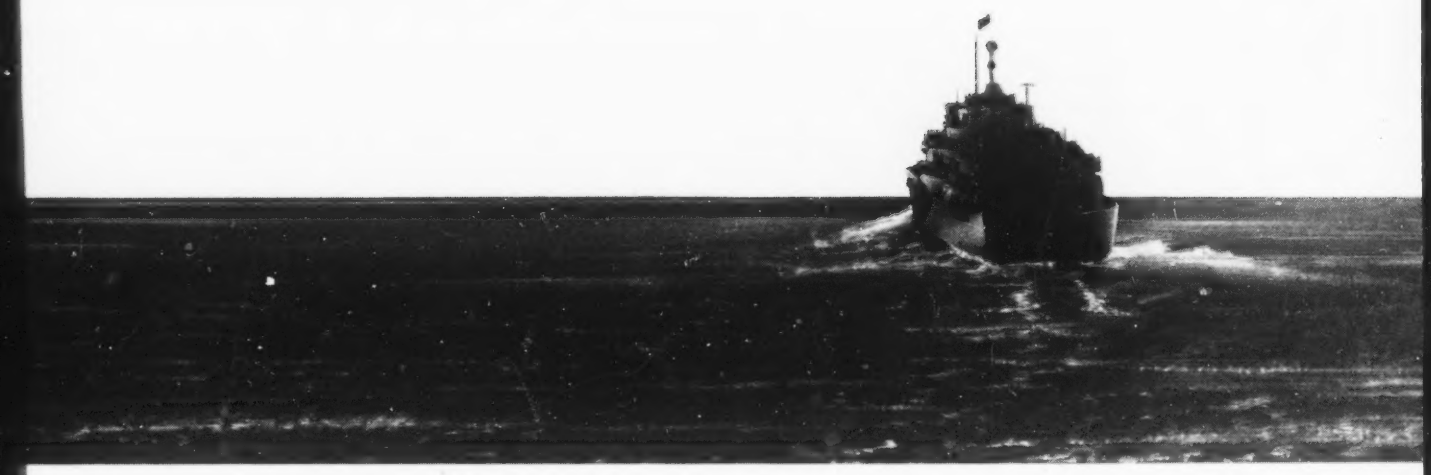
The treatment of sources of revenue also varies considerably from company to company. Germany's chemical giants (BASF, Hoechst, and Bayer) consolidate fully the earnings



of all subsidiaries in which they have at least a 50 percent interest; Daimler only according to the share of ownership. Siemens, on the other hand, excludes revenues of partially owned subsidiaries entirely. Obviously, the hierarchy on the list would be quite different if the method of treating revenues were uniform. But it is not, and a remedy can be expected only when current studies in Brussels on unified accounting principles within the EC are completed.

The increase in oil prices served to swell the returns for companies in other branches of industry as well. The three largest coal producers saw their net proceeds leap by 29 percent last year. The chemical industry also benefited (though not necessarily in terms of profits), particularly the chemical process sector, insofar as it

Don't miss the boat.



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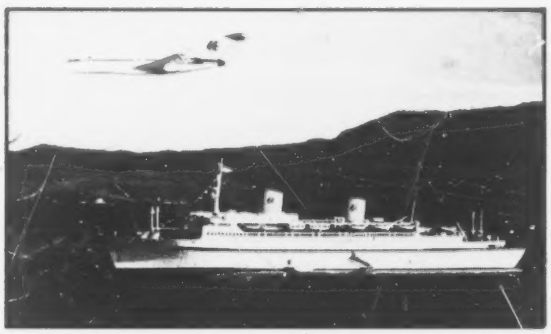

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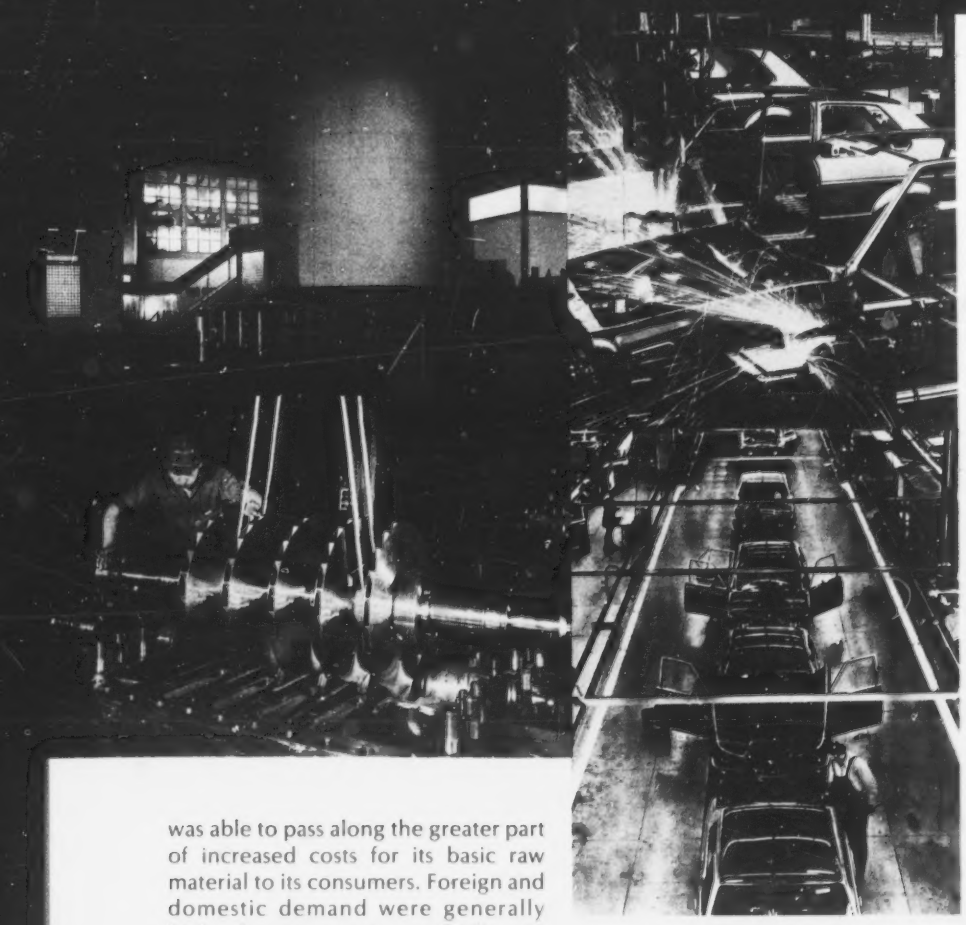

was able to pass along the greater part of increased costs for its basic raw material to its consumers. Foreign and domestic demand were generally high, due in part to stockpiling in anticipation of higher prices to come. On average, the 12 chemical companies on the list increased revenues by 18 percent above 1978; in a few cases, e.g., BASF, Schering, Ruetgers, they rose by more than 20 percent.

Spurts and setbacks in most other sectors were often no less pronounced. For instance, in the electronics and electrical engineering industry, which still has problems with its consumer electronics (video and stereo) and nuclear energy businesses. The loss of a nuclear power plant contract in Iran cost Siemens (through its wholly owned Kraftwerkunion) DM 2 billion. The energy fallout also contributed to the varying fortunes of Germany's auto makers. VW, Daimler and BMW boosted revenues by 13 to 15 percent, while Opel and Ford had to be satisfied with gains of 3 to 4 percent. Directly and indirectly, positively and negatively, the swelling cost of energy had a pervasive effect on revenues as well as profits throughout German industry in 1979.

The view from the top

Despite the juxtapositions caused by higher energy bills and disparate market conditions, the composition of the 100 changed hardly at all from a year earlier, and the membership of the top eight remained unaltered. With each passing year, this group seems to be establishing a virtually unassailable claim to what amounts to a lifetime membership in an elite club. Though their ranking has changed, the threshold for inclusion stands at DM 25 billion: Siemens and VW exchanged places, BASF jumped up from No. 7 to No. 4, and Thyssen slipped back two rungs. The gulf which has separated this group from the No.9 position since 1974 narrowed slightly last year (DM 7.8 billion vs. DM 8.4 in 1978), but still represents a formidable hurdle for would-be members.

Right below them - to pursue this somewhat artificial division further - looms another group with real or potential annual revenues in the range or DM 10 to DM 20 billion. Its composition grew last year by three to a total of 14. The new arrivals were Deutsche BP and Bosch, as well as the Quandt group, which will probably not be viewed as a single revenues entity for much longer.

We can then locate a third distinctive group with annual sales of DM 3 to DM 10 billion; at 26, it grew by one newcomer over 1978. Finally, we encounter the majority - 51 companies in all - with yearly sales below DM 3 billion. Although this group constitutes the quantitative base of the pyramid, it accounts for only 16 percent of the 100's total revenues. The first eight lead with 34 percent, followed by the DM 10 to 20 billion group at 29 percent.

The big picture

Aggregate revenues for the top 100 last year rose by 14 percent to DM 671 billion, up from DM 587 billion in 1978. Of this DM 84-billion increment in growth, almost one-quarter, or DM 20 billion, was accounted for by the oil companies and another DM 16 billion was generated by chemical producers. Thus, these two groups contributed the strongest growth in absolute as well as relative terms.

Acquisitions played no role in the movements recorded in this year's rankings. For example, VW's majority ownership of Nuremberg-based Triumph and Chrysler Motors do Brasil was primarily of symbolic value, raising the company's annual revenues above the 30-billion mark to DM 30.7 billion, as opposed to the DM 29.3 the company would otherwise have reported.

The number of persons on the payroll rose at 44 companies on the list, declined at only 16, and remained more or less stable at the rest. With the consolidation of Triumph and Chrysler do Brasil, VW added a full 17,690 employees to its roster. Employment in its domestic plants rose in 1979 as did its U.S. payroll, due largely to conversion to a doubleshift workday at VW's Westmoreland plant.

Siemens retained its standing as Germany's No. 1 private employer with 334,000 people in its domestic and foreign offices and plants, up 12,000 from 1978. AEG, which traditionally occupied the second slot, fell behind VW, Daimler, Hoechst and Bayer. This re-alignment is substantially attributable to the aggressive overseas expansion pursued by the four automotive and chemical giants. ■

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German-American Economic Review in Figures

	Federal Republic of Germany					United States				
	1978	1979	1979-1980			1978	1979	1979-1980		
			June	July	Aug.			June	July	Aug.
FOREIGN TRADE (in mil.$)										
Imports	121,757	159,708	15,963	16,701	13,590	173,272	207,198	19,893	18,995	19,236
Exports	142,456	171,882	16,121	16,762	13,515	143,460	181,829	18,642	18,075	19,103
Balance on merchandise trade	20,699	12,175	158	61	−75	−29,812	−25,369	−1,251	−920	−133
U.S.-GERMAN TRADE (in mil.$)										
U.S. imports from Germany	10,087	11,332	952	1,088	662	9,961	10,955	992	1,053	933
(+)(−) % from previous year	27.6	12.3	−2.1	5.1	−23.8	38.1	10.0	−1.1	+11.8	−9.0
U.S. exports to Germany	8,725	11,080	1,241	1,286	996	6,815	8,272	934	848	790
(+)(−) % from previous year	18.9	27.0	49.1	44.3	14.1	17.0	21.4	46.9	+44.0	+20.6
Balance on U.S.-German trade	1,362	252	−289	−198	−334	−3,146	−2,683	−58	−205	−143
INDUSTRIAL PRODUCTION										
(+)(−) % from previous year	2.6	5.4	−2.0	−3.1	1.1	5.7	4.4	−7.5	−8.4	−7.3
Iron and steel	5.8	9.0	−3.3	−7.1	—	9.5	0.0	−36.1	−42.1	−32.6
Machines, exc. elec.	0.2	4.8	2.4	10.2	—	7.5	6.5	−3.7	−5.1	−5.2
Electrical machinery and equipment	1.1	1.3	2.7	5.8	—	8.7	9.8	−4.7	−5.1	−3.0
Chemicals	5.2	6.7	−5.8	−9.3	—	5.5	6.6	−8.0	−9.8	−9.7
Road motor vehicles	2.3	7.5	−5.3	−2.0	—	5.4	−5.8	−37.0	−32.6	−25.0
Textiles	−1.1	3.8	−4.0	−3.8	—	2.1	4.6	−10.2	−9.9	—
Apparel	−3.2	−0.1	−5.5	−7.2	—	1.7	−2.6	−3.0	−8.4	—
LABOR MARKET										
Population (in mil.)	61.3	61.4	—	—	—	218.1	220.6	222.6	222.8	223.0
Civilian labor force (in 1000)	25,230	25,548	—	—	—	100,420	102,908	106,067	106,997	106,126
Unemployed (in 1000)	993	876	781	853	865	6,047	5,963	8,291	8,410	8,011
Unemployment rate (in %)	4.3	3.8	3.4	3.7	3.7	6.0	5.8	7.7	7.8	7.6
Gross hourly wages in manufacturing (in DM or $)	11.88	12.55	—	—	—	6.17	6.69	7.22	7.30	7.37
(+)(−) % from previous year	5.4	5.6	—	—	—	8.6	8.4	7.9	8.5	9.2
PRICES (+)(−) % from previous year										
Consumer Price Index	2.7	4.1	6.0	5.5	5.5	7.7	11.3	14.3	13.2	12.8
Producer prices for ind. products	1.2	4.8	7.8	7.4	7.0	7.3	12.9	16.7	16.0	15.3
CURRENCY EXCHANGE RATES (avg.)										
Value of $1.00 in DM	2.0084	1.8330	1.7671	1.7471	1.7901					
Value of DM 1.00 in $						0.4987	0.5456	0.5658	0.5724	0.5587

	1978	1979	1979-1980				1978	1979	1979-1980			
			IV	I	II	III			IV	I	II	III
NATIONAL ACCOUNTS												
Gross National Product at current prices (in bil. DM or $)	1,294	1,404	1,448	1,484	1,492	—	2,128	2,369	2,457	2,521	2,525	2,583
(+)(−) % from previous year, real terms	3.6	4.5	4.4	5.8	1.5	—	4.4	2.3	1.0	1.0	−1.0	−1.5
Balance on current account (in mil. DM or $)	17,524	10,142	−1,480	−5,624	−6,615	—	−14,259	−788	−1,802	−2,635	−2,500	
Monetary reserves (in mil. $)	57,818	60,455	60,455	53,351	57,241	—	18,650	18,930	18,930	21,450	21,920	
Direct investment, cumulative at period end (in mil. DM or $)												
Direct investment abroad	58,193	66,002	66,002	—	70,816	—	167,804	192,648	192,648	—	—	—
—German investment in the U.S.	8,591	12,283	12,283	—	14,487	—						
—U.S. investment in Germany							12,731	13,530	13,530	—	—	—
Foreign direct investment	53,326	55,242	55,242	—	56,382	—	42,471	52,260	52,260	—	—	—
—U.S. investment in Germany	19,923	20,140	20,140	—	—	—						
—German investment in the U.S.							3,654	5,004	5,004	—	—	—

Sources: Statistisches Bundesamt; Deutsche Bundesbank; Bundesministerium fuer Wirtschaft; International Monetary Fund; U.S. Department of Commerce; U.S. Department of Labor; Federal Reserve System

THE GERMAN ALCOHOLIC BEVERAGE MARKET IN THE U.S.: WINES DOWN; LIQUEURS, BEERS ON THE RISE

Debbi Grenn-Scott

Imports of German alcoholic beverages in the United States are undergoing a dramatic shift. Wines from Rheinhessen, Rheingau, Saar-Ruwer and other parts of Germany dropped dramatically in 1979-80 after decades of exceptional growth. German beers, despite a decrease in sales in the home market and the switch of one major brand in the U.S. from an import to a domestic product, continued its heartening growth. A most interesting area, however, is a latecomer—German liqueurs and cordials.

While German liqueurs began to climb in 1979, German wines, whose sales had risen steadily for more than a decade, fell abruptly: from slightly less than 14 million gallons in 1978 to below 11.7 million gallons in 1979, a decline of approximately 15 percent. A further 8 percent drop was indicated for the first seven months of 1980. Many of the German wine firms are now looking for methods to stop the sales erosion and rebuild demand in the United States.

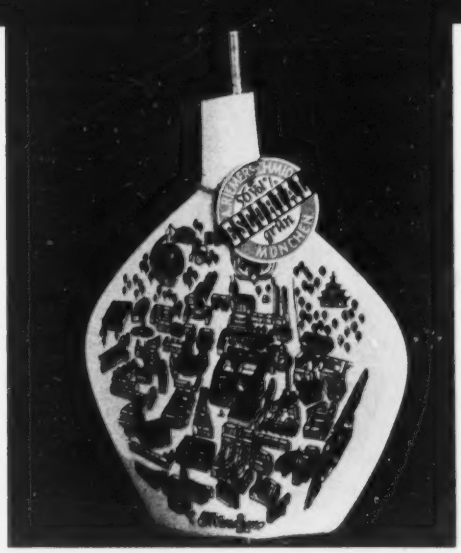
On the other hand, German beers reflect a rosy market picture. Accounting for nearly 10 percent of total malt beverage imports (of which there are 200 brands sold in the U.S.), German beer imports amounted to 14.2 million gallons in 1979, a 19% jump. Total beer imports increased from 107.4 million gallons in '78 to 137.7 million in '79. In addition, German beer imports are up 3 percent for the first seven months of 1980, the National Association of Beverage Importers (NABI) reports, eclipsing gains for the overall category of 2.5% for the same period last year.

Liqueurs in the U.S. are a growing market, accounting for almost eight percent of total distilled spirits sales. German liqueur sales had never been regarded as a factor worthy of mention in the United States — until 1979, when a move to broaden American acceptance of German liqueurs was initiated by Anton Riemerschmid Distillers of Munich.

German Wine Exports to the U.S. (gallons)

1960	901,249
1970	2,764,348
1975	6,103,224
1976	8,764,936
1977	10,402,904
1978	13,781,375
1979	11,684,454

Source: German Wine Information Bureau



The NABI, the trade group of American importers, is tracking German liquer imports as it does those of other countries. The value of German liqueur imports in 1979 amounted to DM 4,218,000, and over the 7-month period beginning January 1980, approximately 23,000 gallons of German liqueurs have been consumed, still a small figure in regard to total sales but a strong indication of a growing consumption pattern now emerging.

In total there are more than 250 brands of liqueurs and cordials sold in the U.S., amounting to almost one-twelfth of the sales of all distilled spirits. Major imported brands have traditionally come from Mexico, Italy and France.

Now the Riemerschmid line, as a result of a marketing program begun in 1979, is beginning to make substantial distribution inroads, which is the first step in developing increasing brand demand. Twenty-one U.S. markets and eight Canadian provinces were added to the distribution network in the last 12 months and the program is still being expanded. The interesting aspect is that the growth has been accomplished with a Total Concept Marketing program on a budget smaller than the majority of its competition.

The Riemerschmid operations were founded in Munich in 1835. Since then, the House of Riemerschmid has established a reputation for high quality products and innovative packaging. In the U.S., however, sales were restricted mainly to the ethnic German market and were minimal.

In 1979, Heinrich Riemerschmid, sole owner of the company and fifth generation of the family to run the firm, launched the program to expand the distribution base and sales volume in this country. Dieter Riemerschmid, his son, was made Director of U.S. Operations, working with TCM - Total Concept Marketing, a division of The SK Group, a New York firm with a successful history of bringing products of diverse international clients into the U.S. market.

The younger Riemerschmid has been in the U.S. before. After receiving his MBA from the University of Augsburg in Germany, he joined Seagram Distillers in the United States as a sales intern and then went home to work in the worldwide sales and marketing operations of Anton Riemerschmid & Co.

After careful analysis of the market, a program was initiated to establish Riemerschmid products nationwide and create demand among the non-German groups which make up the major part of the U.S. market. Some brands which had been in the U.S. on a limited basis for 30 years were phased down and new products designed to meet the American lifestyle were introduced, while some of the older classic brands were retained and built up. For example, Escorial Green, a 112-proof herbal liqueur, somewhat like a German chartreuse, in a unique porcelain jug with paintings of Old Munich has been well received.

Unique also to Riemerschmid are Askalon Fig Liqueur, the newest entry, and Cherry Liqueur & Rum, a blend of Continental cherries and Caribbean rum, being introduced for this holiday season both in a special fine china "Love Set" gift package with the Askalon, or alone in its hand-painted ceramic jug. Like most of the company's unusual bottles and jugs, these are all made from proprietary designs by a small bottler outside of Munich. Also just introduced is Apple Liqueur Deluxe, a mellow translation of the German Apfelkorn. Many of the traditional Riemerschmid packagings have been redesigned to create greater appeal among Americans, as have promotional and sales material, and advertising themes. Another important theme in the program is that all Riemerschmid liquers are natural, without additives or preservatives.

As the trend towards sweeter drinks continues — along with America's preference for all-natural foods and beverages — American consumption of liqueurs and cordials is expected to increase further.

One of the problems confronting producers of alcoholic beverages overseas is that, with high interest rates in the U.S.A., importers and distributors are wary — as they were during the 1974-75 recession — of holding too much inventory. Charges of between 15 and 20 percent interest — and more — had a dampening effect on the amount of goods both wholesalers and retailers were willing to buy in 1979. Alcoholic beverage consumption figures for the year attest to the nationwide reluctance to commit to a single case more than necessary; total shipments and depletions were off by over two million gallons compared with '78.

Even in this cautious climate, enterprising and creative firms such as Riemerschmid did achieve significant gains by promotional and marketing activity aimed at the American taste for 'the good life'. Interestingly, in the liqueurs and the beers, efforts of German suppliers may well be successful, in great degree, because the products are of high quality and premium priced. Buying patterns of American consumers in the past year indicate that while there has been a slight drop in overall distilled spirits sales, both the premium and the low-priced brands have been faring far better than competitors with products in the middle price range.

Because of the size and importance of the U.S. consumer market, the changing patterns that evolve here — and their causes — have to be of enormous importance to German producers — as well as their competitors from around the world. ■

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New Rules for Taxing Foreign Branch Banks in the U.S.

Charles T. Crawford

In February the U.S. Treasury issued proposed regulations that drastically change the way foreign corporations compute their interest deduction for U.S. income tax purposes. Hearings were held in June on the proposed regulations and, according to Treasury officials, final regulations (or possibly revised proposed regulations) will be issued before the end of the year. Treasury officials also indicate that they are considering (1) easing the controversial verification requirements of the proposed regulations and (2) a more liberal debt-to-asset ratio "safe haven" than the proposed regulations provided

The new regulations were devised specifically for the U.S. branches of foreign banks. However, the regulations pertain to all foreign corporations, and could have major impact on any corporation that is (1) highly leveraged and (2) has substantial borrowings in currencies where the prime rate is materially higher or lower than that of the dollar.

Almost as an aside, the new regulations delete the provision in earlier regulations that, if the regulations and tax treaty provisions differ, the treaty will prevail. This deletion applies to the determination of all deductions, not just the interest deduction. The new regulations also contain examples of situations where the IRS will restructure loan transactions whose form does not match their substance. These examples have been very disquieting to the foreign bankers insofar as they indicate the IRS may try to tax the income from non-U.S. business.

Charles T. Crawford is a C.P.A. and a member of the New York Bar. He has written widely on international tax matters. He is the Director of the Price Waterhouse Center for Transnational Taxation, New York.

Fungibility approach

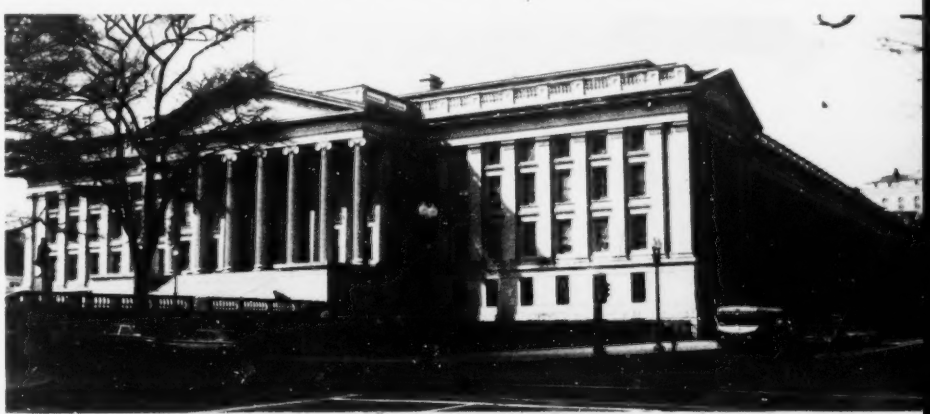
The new regulations grew out of a controversy that began late in 1978 when the Treasury issued Revenue Ruling 78-423, which required branches of foreign banks to compute their interest expense according to the "fungibility" approach, that is, by allocating the bank's world-wide interest expense on the basis of total assets: If a New York branch had 1% of the bank's total assets, 1% of the bank's total interest expense would be deductible in computing U. S. taxable income. Thus, a U.S. branch would have an interest deduction based on the bank's average cost of funds world-wide. The principal factors in this average cost are (1) the prime rate for borrowed funds in the bank's home currency and (2) the makeup of the bank's capital base. U.S. branches of foreign banks generally have computed their interest expense as if they were separate entities; i.e., deducting (1) locally incurred interest plus (2) a charge for funds advanced from the home bank.

Since January 1, 1977 U.S. tax regulations (Reg. Sec. 1.861-8) have required the use of the fungibility approach by all taxpayers. The theory is that management has the power to move money about as it chooses, and thus each borrowing supports a proportionate share of the world-wide assets. The 861-8 regulations provided detailed rules for the allocation of all expenses, not just interest expense.

The fungibility approach is sound as long as only one currency is involved, but it breaks down when business is conducted in more than one currency. If a company's home currency prime rate is lower than that of the dollar, the interest deduction of the U.S. branch is reduced—and income taxes increased. If the home-country prime rate is higher than that of the dollar, the interest deduction is increased—and income taxes decreased. The fungibility approach would permit branches from some high-interest-rate countries to operate in the U.S. tax free.

Designed for U.S. companies

The fungibility approach was developed by the Treasury Department in the early 1970's with U.S. multina-



tional companies in mind. The U.S. taxes the world-wide income of its citizens and corporations. To prevent double taxation the U.S. gives its citizens and corporations a credit for foreign income taxes. The credit is limited to the U.S. tax on the foreign portion of a company's taxable income. The fungibility approach was designed to determine how much of a company's worldwide interest expense should be deducted in computing foreign-source taxable income.

The mathematical allocation on the basis of assets, regardless of where loans were made, restricts U.S. multinationals in structuring their borrowing to increase the limitation on the foreign tax credit.

When the fungibility rules became effective in 1977, they were ignored by the branch banks from low-interest-rate countries. The branches continued to prepare their U.S. tax returns as if they were separate banks, deducting (1) U.S. incurred interest expense and (2) an interest charge for funds advanced from their home banks or other branches.

Fungibility was ignored by these branches because the separate entity approach appeared to be authorized by the tax treaties. As noted, the 861-8 regulations provided that where the regulations and treaty provisions were in conflict "the provisions of the treaty shall take precedence..." Moreover, U.S. tax law (Section 446) provides that tax accounting methods must accurately reflect income and, as noted, fungibility approach produced ridiculous results when business was done in more than one currency.

According to reports, even branches from high interest-rate countries continued to use the entity approach. They, of course, could choose to rely on U.S. tax law if it was more beneficial to them than the treaty provisions. They may have felt constrained by the requirement that accounting methods must accurately reflect income. As one bank official put it: "A system that lets you operate a profitable branch tax free is too good to be true."

When the returns of branches from low-interest-rate countries were examined, IRS agents did not seriously propose that they use the fungibility approach. However, they did object to the deduction of the entire charge for funds advanced from the home bank because a portion of these funds represented equity capital and deposits bearing little or no interest. In some cases the banks and the agents would settle on the basis that less than the full charge was deductible. From the banks' standpoint, these settlements were a small price to pay to avoid opening the fungibility issue.

Revenue Ruling 78-423

Revenue Ruling 78-423 was triggered by a Japanese branch bank asking the Internal Revenue Service how to compute its interest expense. The IRS, which is the tax collecting arm of the Treasury Department, ruled that the U.S. Japan Tax Treaty did not specify how interest should be computed and therefore the U.S. fungibility approach must be used. Since the critical provisions of the U.S.-Japan treaty are identical to those of the U.S. with the other industrial countries, except the U.K., the Ruling would have wide applicability.

Japanese banks, with low home-country interest rates, had much at stake in the entity approach. It would be unfair, however, to argue that the issue would never have come up if the Japanese had not asked for a ruling. IRS documents indicate that the issue had been discussed with the Japanese government in mid-1977, and that by August 1977 the IRS had determined that the fungibility approach should be used. The ruling request merely provided the IRS with a forum to announce its already-decided policy. The ruling had two immediate effects, both detrimental to the IRS: (1) it alerted the low-interest-rate branches to the threat, allowing them to take united action, rather than being picked off one by one, and (2) it removed any hesitancy the high-interest-rate branches had about using the fungibility approach.

Reaction of banking community

The Germany banking community made some calculations and determined that the U.S. income taxes of their branches would be increased six-fold. In a recent year several of the German branches in the aggregate would have lost a total of $9 million rather than making a profit of $4 million.

German bankers and representatives of the Bundesbank, as well as banking interests from other countries, began efforts to get the Treasury to reverse the IRS position. The Germans, in conferences with Treasury officials, pointed out that (1) they could not continue U.S. branch operations in their present scope if taxed under the fungibility approach, (2) they could achieve "entity" taxation in any event by restructuring their U.S. operations as wholly-owned U.S. banks, (3) the IRS position violated the U.S.-German Tax Treaty and probably could not survive a test in court and (4) the fungibility approach makes no sense at all when business is conducted in more than one currency. These arguments, of course, also applied to the branches from other low-interest-rate countries.

The government of another major industrial country that is host to extensive U.S. branch banking activities took a less subtle approach. It called in representatives of the major U.S. banks and asked them to submit calculations showing what their tax liability would be if interest expense were calculated by the fungibility method. U.S. banks typically compute their foreign income taxes by the entity approach. If branches are thinly capitalized and raise most of their funds by borrowing at market rates, the entity approach can produce a larger interest deduction than the fungibility approach even if the prime rate in the local currency is materially lower than that of the dollar.

Treasury reaction

The Treasury Department apparently realized that a mistake had been made. A situation had been created where the branches from low-interest-rate countries would avoid the fungibility approach, either by operating through separate U.S. banks or successfully litigating the question. On the other hand, branches from high-interest-rate countries would use the fungibility approach and operate in the U.S. at reduced taxes or no taxes at all. Moreover, it appeared that there might be retaliatory measures against U.S. branch banking operations abroad.

The Treasury apparently felt that it could not ban the use of the fungibility approach by U.S. multinational banks in computing their foreign source income. These banks had been

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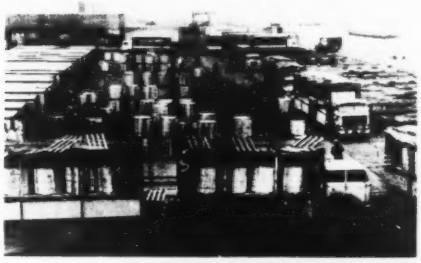

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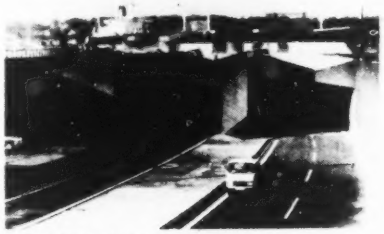

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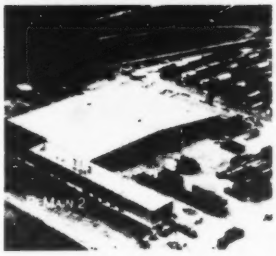

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using the approach for many years, in accordance with Treasury regulations, and preferred to continue to do so.

New regulations

In February 1980, the Treasury issued proposed regulations on how interest expense should be computed when business is conducted in more than one currency. The regulations apply only to foreign corporations. Heretofore, nationality of the taxpayer had not been a factor in determining the source of income or deductions. The Treasury explained this apparent inconsistency by stating that, in the long run, exchange gains and losses by U.S. citizens and corporations, when they switched from one currency to another, would give the same result at the rules proposed for foreign corporations. On the other hand, foreign corporations are not taxed on exchange gains unless they are connected with their U.S. operations.

The new rules combine the separate entity and the fungibility approaches. In effect, the U.S. branch computes its interest deduction by applying the average interest rate it pays for funds to its share of the bank's world-wide liabilities, which are determined by the fungibility approach; that is, if the branch has 1% of the bank's world-wide assets, it is deemed to have 1% of its world-wide liabilities; and the branch's average cost of funds obtained outside the bank, say 10%, is applied to that number. To the extent the branch's liabilities, computed by the fungibility approach, exceed its liabilities to third parties shown on its own books, it can deduct the interest charges on a portion of the bank's non-U.S. connected borrowings of dollars. Interest charges for funds advanced from within the bank are not deductible.

If records are not available to compute the ratio of world-wide liabilities to world-wide assets, the ratio for banks will be deemed to be 9 to 10. Thus the branch's liabilities would be deemed to be 90% of its assets. In the case of non-banking businesses, liabilities will be deemed to be 50% of assets if records are not available.

An alternative method, at the election of the bank, bases the interest deduction on the branch's dealings in various currencies. This method also is based on the branch's share of the bank's world-wide liabilities.

The proposed rules are to be effective 30 days after the publication of the final regulations, which probably will be late in 1980; or, at the election of the taxpayer, the rules will apply for taxable years beginning after December 31, 1976. Branches that have been using the fungibility approach to operate in the U.S. tax free will naturally take the later date. Branches from low-interest-rate countries, assuming they accept the tax computation portion of the regulations, will elect the earlier effective date. Because the fungibility regulations were first effective in 1977, this means that none of the branch income of banks that elect the earlier date will ever be taxed by the fungibility method.

At hearings in Washington on June 4 a number of interested parties attacked the provisions of the proposed regulations requiring that banks furnish to the IRS on demand information sufficient to verify any claimed deduction. Also criticized were the requirements that the figures be capable of verification by the IRS and that classifications of items as assets and liabilities must be made on a consistent basis and in accordance with U.S. tax principles.

Both the German and Japanese banking interests were represented at the hearings. The foreign banks as a group were represented by the president of the Institute of Foreign Banks. One of those testifying suggested that foreign banks be allowed to apply, at their option, an equity ratio that approximates that of U.S. banks. The major U.S. banks have equity ratios in the range of 4% to 5%. This would be instead of the 10% equity (9 to 10 ratio) the proposed regulations permit if the actual ratio cannot be computed. A Treasury official hinted at the hearings that the final regulations might provide for an equity ratio of 8%. This is the equity ratio required for exemption from reserve requirements for Eurodollar borrowing.

Subsequent to the hearings, Treasury officials have indicated informally that (1) a more favorable debt to asset ratio than 90% is being considered, (2) the ratio will be optional rather than applicable only where actual figures are not available and (3) the requirements for determining and verifying actual figures will be eased.

Several banking spokesmen at the June 4 hearing maintained that the proposed rules violate the provisions of a number of U.S. tax treaties by not allowing the deduction of interest on advances from the home bank. They suggested that the proposed rules be changed to permit a deduction for such advances. A Treasury official at the hearing termed the suggestion "preposterous".

German banking and government officials have stated off the record that the proposed rules are ones they can live with from the standpoint of the tax involved. The income tax effect of the proposed rules have been compared with the separate entity basis by several German branches, and for most the new rules do not tax much more harshly. The banks that are hurt monetarily consider the other issues (taxing non-U.S. business, verification of records, and certified translation) so important that they will accept the monetary aspects of the rules in order that all the German banks can form a solid front in opposing these other requirements.

Problem could have been avoided

The Treasury would have avoided the current state of affairs if they had held hearings before (rather than after) they issued the Ruling requiring that branch banks use the fungibility approach. Now they are faced with a situation where (1) branches from high-interest-rate countries will be able to operate in the U.S. at little or no tax for four years or so, while (2) branches from low-interest-rate countries avoid fungibility entirely.

In extreme cases branches from high-interest-rate countries could generate losses during the years 1977 to 1980 that would also eliminate tax during the ten-year carryback period (1967–1976) and the five-year carryforward period (1981–1985). That's nineteen years!

The Treasury apparently was unaware either (1) that fungibility would affect branches in such extreme ways or (2) that their position could well fail if tested in court. This failure would be virtually guranteed if the alternative was the absurd result that the fungibility approach produced. The proposed rules, by providing a reasonable result, would not be as vulnerable to a test in court. ■

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Truck trailers and semi-trailers. Manufacturer of truck trailers, semi-trailers, heavy-duty truck trailers, and tank trucks wants financial participation in a U.S. company manufacturing truck trailers and semi-trailers. Heinz Schmitz, Owner, Schmitz Anhaenger Fahrzeugbau GmbH, Postfach 9, Hanseller Str. 6, D-4401 Altenberge-Westf.

Ceramic glass, heat & acid resistant, shock proof, for kitchen ovens, approx. 50,000 to 100,000 units/months. Quote c.i.f. Hamburg. Ballhausen has been an agent for 30 years & is urgently seeking U.S. firm to represent. Annual sales DM 6 million. Fin. ref.: Westfallenbank in Bochum. Reply to—Wolfgang Ballahausen, Raffenberg 11, 4320 Hattingen, W. Germany. Tel. 2324-22050; telex 8229973.

Automotive sunroofs made of security glass, requirement per yr. for DM1 million approx. Quote f.o.b. U.S. harbor. Firm estab. 1978, employs 21, annual sales approx. DM 3.5 million. Fin. ref.: Stadtsparkasse Koeln. Reply to—Rolf Eiserfey, Geta Vertriebs GmbH, Vorgebirgsstr. 338, 5000 Koeln 51, W. Germany; tel. 221-3601603; telex: 8881252.

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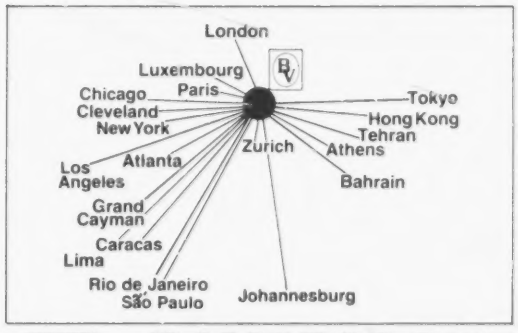

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Machines for winding of stator & rotor coils for electric motors. Mfrs. rep. & distrib. for special machines estab. 1974, 5 employees, turnover DM 1.5 million. Reply to—Juergen Borcherding, Jul. Brecht-Strasse 5, 2 Hamburg 52, W. Germany; tel. 040 803133.

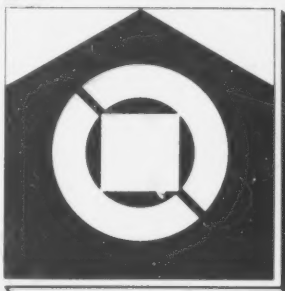
Charcoal, charcoal briquettes, for grills, ready packet in sacks of 2 kilograms up to 15 kilograms. Through June 1980 company already sold 7,850 tons of barbecue charcoal in Germany. Estab. 1970, employs 12, incl. 7 salesmen. Annual sales: DM 21 million. Financial ref.: Raiffeisenbank in 5060 Bergisch Bladbach. Reply to—Helmut Haendeler, Mgr., Haendeler Import GmbH, PO Box 200270, Alte Wipperfuerther Str. 24, 5060 Bergisch Gladbach 2, W. Germany. Tel. 2202/52057; telex 887764.

Furniture retailer. Wants to establish a subsidiary in the U.S. for distribution of furniture and home furnishings. The company is considering the east coast, but will consider offers from other areas. It prefers the purchase of lease of an existing building, but is willing to build a new project. MF Moebel Fritsch GmbH, Aalener Strasse 28, POB 1160, D-7920 Heidenheim, Tel: 0011-49-7321-61021, contact: Berhard Fritsch.

Machine-made glassware, household drinking glasses, jugs, food serving utensils. Established 1904. Employs 5 & has annual sales of about DM 20 million. Sells mainly to dept. store chains, such as Kaufhof AG in Cologne and Horten AG in Dusseldorf. Also sells to buying cooperatives such as EK Bielefeld, Hatra in Muenster, etc. Fin. ref.: Sal. Oppenheimer Jr., 5 Koeln. Represents Myott Sons, Henly, Stroke-on-Trent, U.K. Reply to—Hilde Kullen, Hildekullen GmbH, Zi. 32/33 Musterhaus am Messekreisel, Keutz-Muelheimerstr., 5 Koeln 21 Deutz, W. Germany; tel. 221-883503; telex 8873635.

Candles. Small-sized agent for variety of novelties, expressed interest in taking over rep. for U.S. firms. Employs 2. No data available on annual sales volume. Already rep. some German firms. Reply to—Volker Pfannenschwarz, Handelsvertretungen, Uhlandstr. 7, D-7311 Dettingen/Teck, W. Germany. Tel. 0011-49-7021-54181.

Cologne Trade Fairs a la carte



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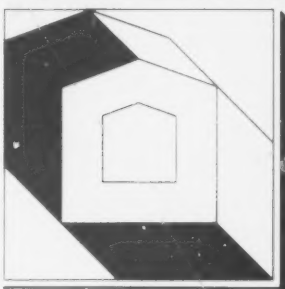

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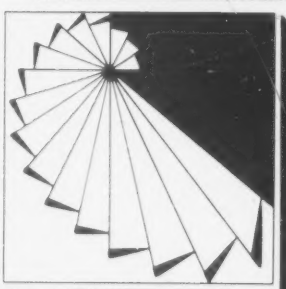

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Money's Worth

1. Customs problems facing U.S.-based travelers returning from abroad are becoming both simpler and more complicated at the same time. On the one hand, the Customs Service is trying to simplify its procedures; at the same time other federal agencies keep changing the rules that govern what you can bring home. So many government pamphlets address themselves to customs procedures and duties that it is difficult to keep abreast. However, if there is one that should accompany any American or U.S.-based traveler going abroad, it is "Know Before You Go", an annually revised 32-page booklet that can easily be slipped into a pocket, purse or briefcase. The booklet covers, among other things, how to make a customs declaration, what is subject to duty and what is exempt, duty-free allowances on liquor and cigarettes, how to send goods home from abroad, a list of duty rates on many specific items, and information on what you may not bring into the U.S. at all. The idea is that if you know the rules before you leave home, you will be more prudent in your shopping. To get a free copy, simply ask for it by name on a 10-cent postcard, addressed to the U.S. Customs Service, P.O. Box 7118, Washington, D.C. 20044.

2. Completing a phone call from overseas to home is at best a sometime thing. Mr. E. E. Carr, head of A.T.&T.'s long lines division, which is responsible for all U.S. phone systems into overseas networks, offers the remainder that phone service around the world is very uneven. While Mr. Carr gives the Federal Republic's internal telephone system excellent grades, he calls attention to the fact that Germany (as well as Portugal) refuses to honor credit cards for telephone calls. Also, German hotels continue to maintain their notorious reputation for hitting guests with exorbitant surcharges for calls made from the room. An unfavorable exchange rate contributes further to make these phone calls from Germany very expensive indeed. Finally, he notes, delays of two hours and more are not uncommon for international calls during morning business hours from major cities.

3. There was a time when the business traveler was viewed as a reliable, undemanding, eternal fountain of revenue for the travel industry. He (or she) was a captive clientele, motivated to spend whatever was required by the demands of the job. That attitude is changing fast and in all areas. One major hotel chain, Trusthouse Forte Hotels, noted for its network of top luxury hostelries, has conducted a survey of top business executives to determine their priorities on the travel circuit. Among others the survey revealed that business travelers overall are bored to death with hotels and are constantly looking for something unique and different without giving up the services required to conduct their business. Mr. Howard Fine, an executive vice president of the hotel chain, recommends to those who regularly visit new locations the purchase of a good generic guide to all hotels. Mr. Fine's choice: The Hotel Travel Index or The Official Hotel and Resort Guide, both published by Ziff-Davis Publishing Co., One Park Avenue, New York, N.Y. 10016, which contain unbiased information on facilities, locations and prices of hotels around the world.

4. Among the most recent airlines to commit itself to the three-class concept is Pan American World Airways, which has announced its intention of installing new and bigger seats in its Clipper Class cabins in its entire 747 fleet. According to Pan Am, the new seats will provide a full 25 percent more space all around. This will include a space above, in front, and under the seat, giving both the passenger and his carry-on luggage significantly more room. Thus, travelers will now have a choice of regular seating in Economy, the new wider seats in Clipper Class and the sleeper seats in First Class. ■

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German, (32), U.S. Representative of leading German firm in the service industry (travel related), experienced in training, PR, advertising, sales promotion, customer service; presently working as coordinator with U.S. partner firm, seeks new challenge in representation of German firm. Permanent U.S. resident status, willing to relocate within U.S. Available July 1/ Sept. 1, 1981. German American Trade News, Box 1126, 666 Fifth Avenue, New York, NY 10103.

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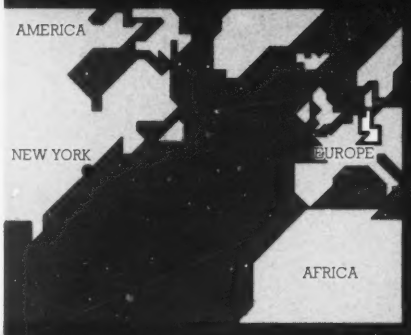

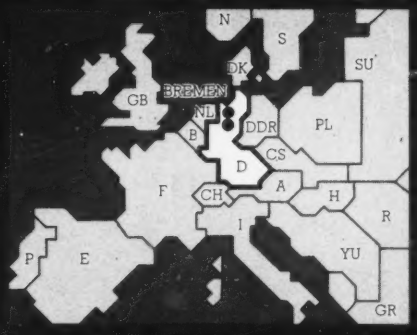

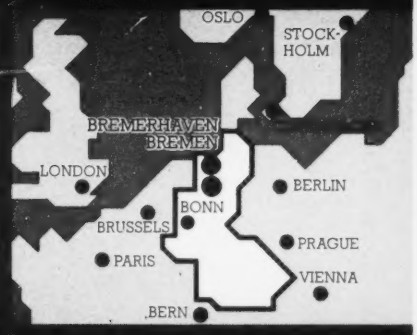

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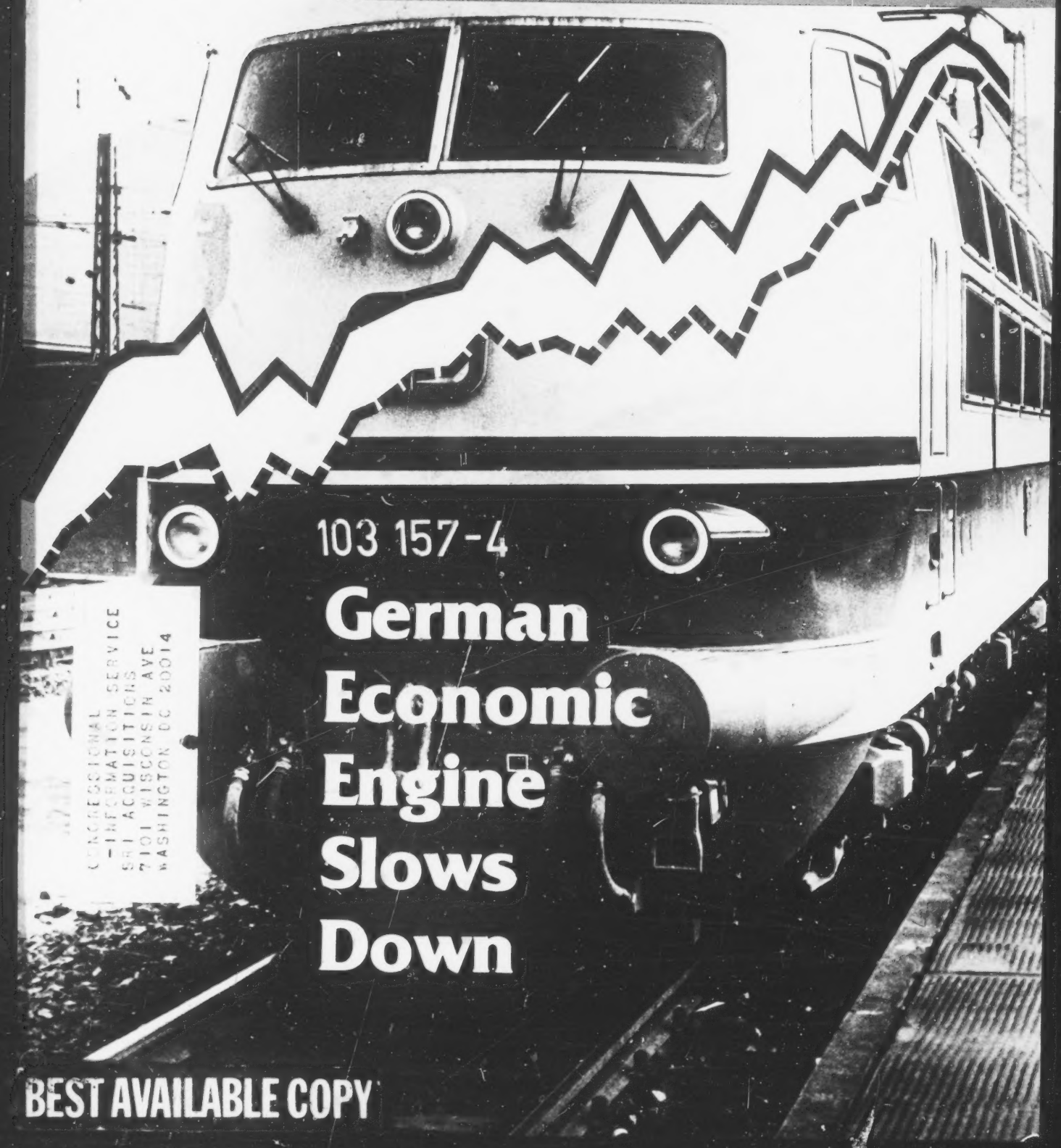

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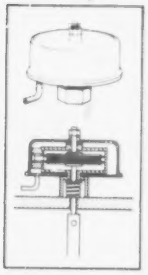
Luxury trappings can't cut running costs or prolong car life or make driving safer. Technology can—as witness that 1 ½-ton mobile efficiency system, the 240 D.

The Mercedes-Benz 240 D is far more than the only $20,000* sedan to be rated at 29 EPA estimated mpg and 33 estimated highway mpg.† It is a moving network of science and technology, pursuing not only high fuel mileage but efficiency in every sense of the word.



For example, the 240 D's zero-excess four-cylinder diesel engine is meant to run efficiently at 5,000 feet above sea level or at five. Mercedes-Benz science gave it a *built-in barometric brain*, to adjust the fuel/air mixture to the altitude.

To save weight and minimize power and fuel loss, the engineers gave the 240 D a floor-mounted four-speed manual transmission, so efficiently designed that *Motor Trend* calls it "probably the smoothest stick shift in the world."

More efficient than your foot

An automatic cruise control device can make you a more efficient turnpike driver by holding 55 mph all day if needed—far more precisely than your throttle foot. No fuel-wasting ups and downs.

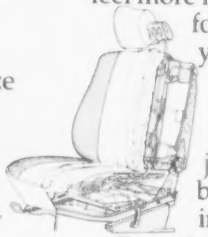
To the engineers of Mercedes-Benz, sloppy steering is inefficient. Spongy brakes are inefficient. A car that wallows and heaves over bumps and through curves is inefficient. Thus, the 240 D equips you with taut steering and fade-resistant four-wheel disc brakes and a fully independent suspension system meant to *cling* to the road surface, even when the surface is poor.

Efficient, inside and out

The 240 D's outer contours are aerodynamically efficient, shaped not to slam into the airstream but to slip through it. Note the car's subtle wedge shape.

You also enjoy the efficiency of *size*. The 240 D cradles five people and 12.57 cubic feet of luggage space within a package much less bulky than even today's downsized luxury diesels.

The goal of driver efficiency governs the design and layout of the 240 D's interior. The seats feel more like chairs than pillows, for instance—bolstering your body with five separate layers of padding over steel springs. Before you is not a jukebox but a beautifully functional instrument panel.



Even the wood interior trim is efficient: sandwiched into it is a thin strip of aluminum, as a precaution against possible splintering in an impact.

The $6,000 surprise

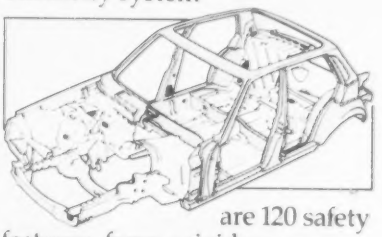
It is worth noting that this model of engineering intelligence is priced $6,000 lower than any other Mercedes-Benz sold in America.

Air conditioning and electric window lifts are available, at extra cost. So is an efficient automatic transmission with not three but four speeds.

Here is a final efficiency of this mobile efficiency system—its share in the Mercedes-Benz resale legacy. Recent figures show that Mercedes-Benz sedans, the 240 D included, have kept about *80 percent* of their original value at retail after the first three years.

120 safety features

Integrated into this mobile efficiency system



are 120 safety features, from a rigid passenger cell with impact-absorbing front and rear crumple zones to a built-in first aid kit. The 240 D's body and chassis are not separate elements held together by nuts and bolts, but a single unit, precision-welded at several thousand points to form a twist, squeak, and rattle-resistant structure.

The efficiency of experience

Mercedes-Benz introduced the automobile itself almost a century ago, the diesel automobile 45 years ago, and the 240 D seven years ago.

Experience, the great teacher. The 240 D, the proof. And efficiency, the result.

†EPA estimate for comparison purposes. The mileage you get may vary with trip length, speed and weather. Actual highway mileage will probably be less.

Engineered like no other car in the world

*Approximate suggested advertised delivered price at port of entry.

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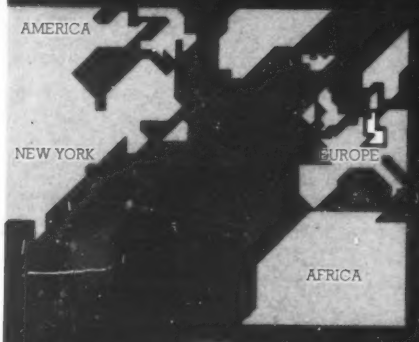

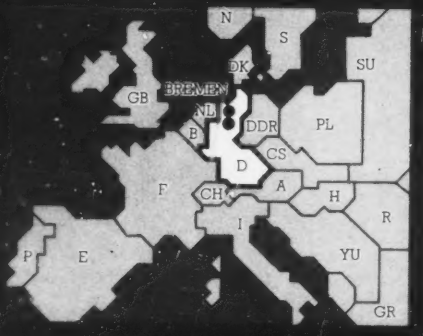

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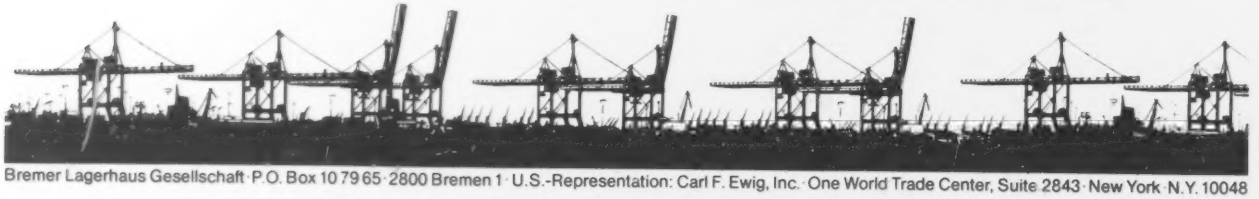

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VOL. 35 NO. 1 January/February

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GATN
German-American Trade News

Werner Walbrol — Executive Director

Benigna Kirsten — Advertising

Magdalena Wolf — Circulation

Richard Jacob — Editor

The **German American Trade News** is published bimonthly by the German American Chamber of Commerce, Inc., 666 Fifth Avenue, New York, New York 10103 and also distributed at regional Chambers in Atlanta, Chicago, Houston, Los Angeles, San Francisco and Washington, D.C. Subscriptions in the United States and Canada $9.00 per year, $18.00 for 3 years, other countries $12.00 yearly, overseas airmail $24.00 per year. Single copy price $1.50. For change of address, please give old as well as new address including zip code (if possible enclose address label from magazine). Allow 4-6 weeks for change.

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Produced by World Composition Services, Inc., 432 Park Ave. So., New York, NY 10016. Controlled circulation paid at New York, New York.

Address all correspondence and inquiries to German American Chamber of Commerce, Inc., 666 Fifth Avenue, New York, New York 10103. Tel. (212) 974-8830.

Chamber Commentary

Men in the middle

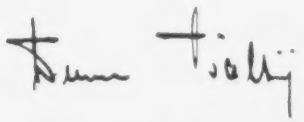
Society has long conferred upon bankers the dubious distinction of being at once much sought after but much maligned. Let an individual practice strict financial discipline and he will be hailed as a paradigm of virtue, an example to be emulated by lesser mortals. Interestingly, the illogic of human nature often interprets that same quality in bankers as a form of misanthropy, scorned in popular literature and denounced by would-be debtors.

In that sense, the banker occupies an anomalous position in the community, though he hardly cries out for our sympathies. But if the commercial banker's image is often controversial, what is the lot of the bankers' banker, the Central Banker? As the final arbiter of national monetary policy and an ombudsman of financial responsibility, he is almost inevitably caught in a crossfire of criticism, frequently motivated by political as well as economic considerations.

It may not be equivalent to feeding the innocents to the lions, but 1981 will surely test the mettle of Paul Volcker and Karl Otto Poehl. In the case of Volcker, the Federal Reserve will have to conduct monetary policy in a hyperinflated economy with deep structural problems which are about to receive a heavy dose of untried supply-side remedies. The historically high interest rates imposed by the Fed have, among others, inevitably contributed to depressed auto sales and have altered the home-buying aspirations and patterns of millions of Americans. Up to now, Volcker has been forced to inject monetary overkill into the vacuum created by deficient anti-inflationary fiscal policy.

While Volcker is essentially repeating the loneliness of single-handed combat experienced by Arthur Burns, Bundesbank President Karl Otto Poehl is tracing new ground. By and large, his predecessor, the esteemed Otmar Emminger, had only to cope with the problems of success. Poehl, however, scarcely had time last year to arrange his office furniture when he was confronted by the dual and unique problems of a suddenly depreciating DM and a current-account deficit whose prodigious scale was only then becoming apparent. Poehl's Scylla and Charybdis is stark: the high interest rates he must maintain in order to defend the DM from further erosion vis-a-vis the dollar are tapping oxygen from the nation's economic bloodstream. Indeed, the high cost of money may be catalyzing outright shrinkage in the economy this year.

The coming months will undoubtedly witness continued sniping at both Central Bankers. But, to judge from their public statements, they are determined to apply therapeutic pain until their national budgets are brought into better balance. Let us hope that their refusal to be intimidated by the crossfire will help to strengthen the backs of legislators who may still see some political gain in red ink.



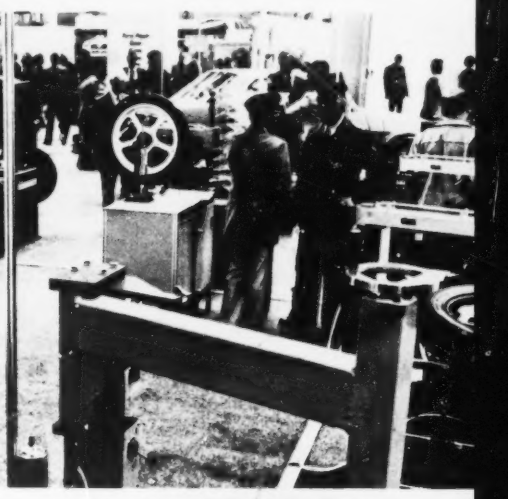
German-American Economic Review

	Federal Republic of Germany					United States				
	1978	1979	1979-1980			1978	1979	1979-1980		
			Aug.	Sept.	Oct.			Aug.	Sept.	Oct.
FOREIGN TRADE (in mil.$)										
Imports	121,757	159,708	13,590	15,540	16,484	173,272	207,198	19,236	19,465	20,061
Exports	142,456	171,882	13,515	16,449	17,394	143,460	181,829	19,103	18,701	19,089
Balance on merchandise trade	20,699	12,175	−75	909	910	−29,812	−25,369	−133	−764	−972
U.S.-GERMAN TRADE (in mil.$)										
U.. imports from Germany	10,087	11,332	662	894	1,014	9,961	10,955	933	1,845	863
(+)(−) % from previous year	27.6	12.3	−23.8	9.2	−4.2	38.1	10.0	−9.0	10.3	−5.4
U.S. exports to Germany	8,725	11,080	996	1,039	1,186	6,815	8,272	790	801	872
(+)(−) % from previous year	18.9	27.0	14.1	30.0	5.7	17.0	21.4	20.6	20.3	4.7
Balance on U.S.-German trade	1,362	252	−334	−145	−172	−3,146	−2,683	−143	−44	−9
INDUSTRIAL PRODUCTION										
(+)(−) % from previous year	2.6	5.4	−1.2	−6.1	−3.6	5.7	4.4	−6.8	−5.8	−4.1
Iron and steel	5.8	9.0	−7.6	−11.0	−6.4	9.5	0.0	−32.7	−30.6	−13.7
Machines, exc. elec.	0.2	4.8	5.1	3.5	1.7	7.5	6.5	−4.5	−3.6	−1.4
Electrical machinery and equipment	1.1	1.1	−6.4	−6.4	−1.7	8.7	9.8	−3.1	−5.0	−4.1
Chemicals	5.2	6.7	−9.2	−11.3	−9.4	5.5	6.6	−7.9	−3.1	−0.9
Road motor vehicles	2.3	7.5	−4.7	−9.5	−5.4	5.4	−5.8	−24.6	−24.5	−16.9
Textiles	−1.1	3.8	−4.6	−6.8	−8.5	2.1	4.6	−9.0	−10.6	−9.2
Apparel	−3.2	−0.1	−5.5	−10.2	−6.1	1.7	−2.6	−6.5	−6.6	−2.6
LABOR MARKET										
Population (in mil.)	61.3	61.4	—	—	—	218.1	220.6	223.0	223.2	—
Civilian labor force (in 1000)	25,230	25,548	—	—	—	100,420	102,908	106,126	104,720	105,415
Unemployed (in 1000)	993	876	865	823	888	6,047	5,963	8,011	7,464	7,482
Unemployment rate (in %)	4.3	3.8	3.7	3.5	3.8	6.0	5.8	7.6	7.5	7.6
Gross hourly wages in manufacturing (in DM or $)	11.88	12.55	13.61	—	—	6.17	6.69	7.36	7.42	7.49
(+)(−) % from previous year	5.4	5.6	7.3	—	—	8.6	8.4	9.0	9.3	9.8
PRICES (+)(−) % from previous year										
Consumer Price Index	2.7	4.1	5.5	5.2	5.1	7.7	11.3	12.8	12.7	12.6
Producer prices for ind. products	1.2	4.8	7.0	6.7	7.0	7.3	12.9	15.3	13.9	12.9
CURRENCY EXCHANGE RATES (avg.)										
Value of $1.00 in DM	2.0084	1.8330	1.7901	1.7895	1.8407					
Value of DM 1.00 in $						0.4987	0.5456	0.5587	0.5588	0.5428

	1978	1979	1979-1980				1978	1979	1979-1980			
			IV	I	II	III			IV	I	II	III
NATIONAL ACCOUNTS												
Gross National Product at current prices (in bil. DM or $)	1,294	1,404	1,448	1,484	1,492	1,515	2,156	2,414	2,496	2,572	2,565	2,637
(+)(−) % from previous year, real terms	3.6	4.5	4.4	5.8	1.5	0.7	4.4	2.3	1.0	1.5	0.7	−1.1
Balance on current account (in mil. DM or $)	17,524	10,142	−1,480	−5,624	−6,615	12,244	−14,259	−788	−1,802	−2,610	−2,431	4,900
Monetary reserves (in mil. $)	57,818	60,455	60,455	53,351	57,241	56,717	18,850	18,930	18,930	21,450	21,920	23,000
Direct investment, cumulative at period end (in mil. DM or $)												
Direct investment abroad	58,193	66,002	66,002	—	70,816	—	167,804	192,648	192,648	—	—	—
—German investment in the U.S.	8,591	12,283	12,283	—	14,487	—						
—U.S. investment in Germany							12,731	13,530	13,530	—	—	—
Foreign direct investment	53,326	55,242	55,242	—	56,382	—	42,471	52,260	52,260	—	—	—
—U.S. investment in Germany	19,923	20,140	20,140	—	—	—						
—German investment in the U.S.							3,654	5,004	5,004	—	—	—

Sources: Statistisches Bundesamt; Deutsche Bundesbank; Bundesministerium fuer Wirtschaft; International Monetary Fund; U.S. Department of Commerce; U.S. Department of Labor; Federal Reserve System

Trade Fairs



Sema Breaks Into European Market Via Automechanika

Freda Greene

One hundred forty thousand dollars for an hour's efforts will bring a smile to anyone's lips. That accounts for the beaming face of Wil Phillips, a member of the Specialty Equipment Market Association (SEMA)) and new-to-market exhibitor at Frankfurt's Automechanika 1980.

The American association's attendance at the six-day September automotive aftermarket trade show marked its first-ever entry into the export field as a group. It also marked the first time that Automechanika, the popular biennial trade show, had ever accepted an American association as an exhibitor under its own banner and not that of the U.S. Dept. of Commerce.

This highly successful venture resulted from a unique four-way partnership consisting of Interport, Ltd., of Sunset Beach, Calif., a leading international planner of deluxe business and professional tours, Lufthansa German Airlines, SEMA, and the Automechanika sales management, headed by Gunther Kaross. (Both Interport and Lufthansa are members of the German American Chamber of Commerce.)

Understandably, during the first day of Automechanika, the SEMA exhibitors were apprehensive about the reception of their products in the European marketplace. But by the second day, they had formed a clearer picture of their impact, and the consensus was that it was favorable.

Freda Greene is a freelance writer based in Reseda, California.

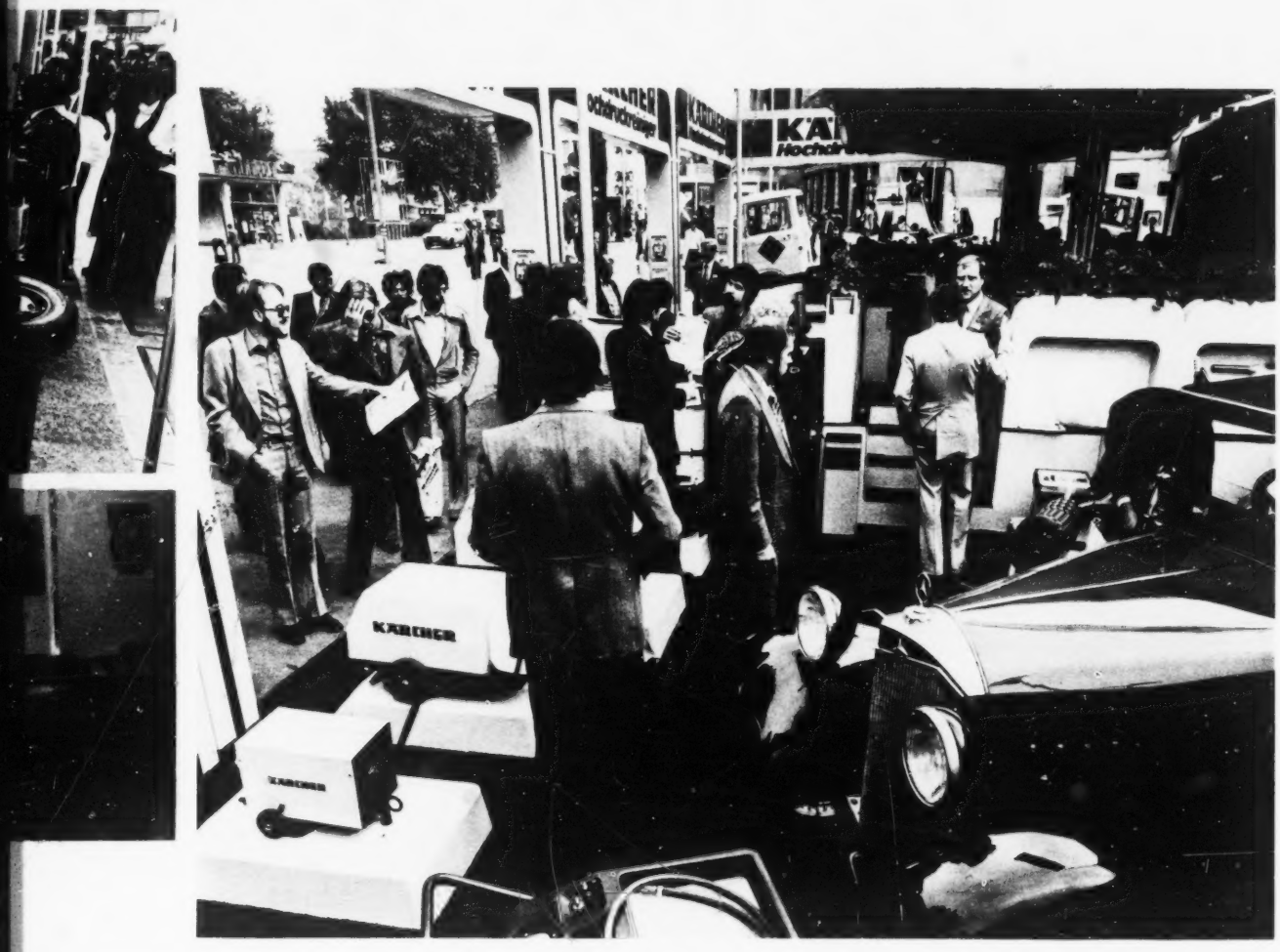
Charles Blum, SEMA president remarks, "Many of our 'new-to-market' members are satisfied because they are making excellent contacts here and learning about this market. One of our members came here expecting to write some $5 million in orders for his products. Already he has adjusted his potential sales forecast to $10 million! But he's been in international trade for the past five years."

Blum says that those who sincerely intended to make a goal of international trade, and those "who did their homework are certainly being successful at this show."

"Doing their homework" meant different things to different people. President of Hulon International Inc. Wil Phillips, who wrote up that $140,000 order mentioned earlier for "The End" rear styling lenses, accessories for German and Japanese cars, said "Although I've never exhibited here before, I have visited the International Auto Show and Automechanika for the past four years, giving me an insight into the market. I subscribe to three German magazines, to follow market tastes and trends, and to give me ideas as to adapting an existing product to the market. I'm also taking German lessons. I've found that Europeans are skeptical about U.S. delivery, with some justification. So when I make a commitment for delivery, I keep it."

Another first-time Automechanika exhibitor, Cragar Wheels' V.P. Marketing, James Howie, reacted cautiously to his second-day business. "It's hard to assess how the fair is shaping up. Certainly it has given us an awareness of the market's dimensions. We hadn't intended writing lots of business but to determine our future program, so we only have a modest booth and brought three people. In two years we'll have a better chance to enjoy success of a different kind at this show."

With five years' experience behind them in exporting, Performance accessories distributors American Marketing International went all out in their preparation. President Walter Lahmann groaned, "Never thought I'd get tired of writing orders." His company had telexed or written to all 500 of their overseas customers to announce their appearance at Automechanika. "We took double-stand space for more impact, then sprayed our booth a different color. We have a factory representative here for each



product, and brought 2,000 lbs. of display merchandise, and 2,000 pieces of literature in four languages for each product. And we have direct facilities to refer customers to our German distributors."

Jackman Wheels' Dick Horasian says, "You can't rely on other people's impressions, I know now you need to experience this sort of fair yourself. The market is huge, and there is definitely a place for American products here. But you need a good interpreter, and we'll consider that next time."

Vice President Joanne Craig for auto accessory shippers Express Parts says that next year her company will be better prepared, but "people have shown a very favorable reaction to the service that we offer."

Ray Bleiweis, president of Rocket Industries International, reported that he wrote an order "so big that I don't want to disclose any information on it to my competitors."

Eight SEMA members who had not joined this year's group attendance plan to be at Automechanka 1982, says Jerry Maloney, International Trade Committee Chairman, SEMA. "Our members' exposure to the European marketplace has been unique. We have nothing close to it in the U.S. Many of our members are lining up more distributors and good orders than in the entire history of their companies." This despite complaints about the out-of-the-way location of the group's stands. This situation has been discussed with the fair organizers.

SEMA President Blum said a survey made at the end of the show indicated that his members were impressed with the great European demand for auto accessories, with the care taken of the average European car. "This has given us a preview impression of what the U.S. future market will be." Some members felt that badges for visitors would have helped them distinguish between trade people and consumers. Many were impressed with the quality and variety of the stand fabrics.

During the fair, SEMA officials surveyed their exhibitors' interest in returning to Automechanika 1982. All but one said they would be back in Frankfurt next time. And by the first week of November, 28 of them had signed up to do so.

The American manufacturers of aftermarket sales and workshop equipment seem to be aware of the shift in market emphasis that has taken place both in the U.S. and in Europe. As pointed out by Gunther Reymann, Press Officer for the Frankfurt Fairs, "manufacturers now have to think about obtaining bigger shares of profits from workshops and selling accessories," in keeping with the changes expected for the new generation of cars that will emphasize economy and pollution control.

At the same time, SEMA considers their entry into the European market as a two-way promotion, since it hopes to generate interest on the part of Europeans and others from abroad in attending the annual SEMA trade show in Las Vegas.

Fair Schedule 1981

The German American Chamber of Commerce has compiled a listing of the major trade shows to be held in Germany in 1981. The list includes all events of International significance in the Federal Republic's prominent trade fairs cities. Further information on individual fairs may be obtained from the Chamber.

JANUARY	14-18	**FRANKFURT**	Home Furnishing Textiles, Floor Coverings and Household Textiles
	15-18	**DUESSELDORF**	Trade Fair for Silverware
	21-25	**COLOGNE**	German Furniture Fair
	22-25	**FRANKFURT**	IMA International Amusement and Vending Machines Trade Fair
	23-Feb. 1	**BERLIN**	International Green Week
	24-Feb. 1	**DUESSELDORF**	Boot '81 12th International Boat Show
FEBRUARY	2-6	**COLOGNE**	ISM International Sweets and Biscuits Fair
	5-11	**NUREMBERG**	International Toy Fair
	7-11	**FRANKFURT**	Music Fair Frankfurt International Trade Fair, Musical Instruments, Musical Accessories, Music Publishers
	11-14	**COLOGNE**	DOMOTECHNICA, International Fair for Large Household Apparatus and Electrical Appliances
	12-15	**COLOGNE**	International Housewares Show
	14-17	**COLOGNE**	International Hardware Show
	14-17	**MUNICH**	INHORGENTA Jewelry, Watches & Clocks
	21-24	**OFFENBACH**	International Leather Goods Fair
	21-25	**FRANKFURT**	International Frankfurt Spring Fair
	22-24	**COLOGNE**	International Men's Fashion Week
	23-26	**DUESSELDORF**	VAT Subcontractors Trade Fair
	26-March 1	**MUNICH**	ISPO International Sports Equipment Fair
	28-March 6	**BERLIN**	ITB, International Tourism Exchange
MARCH	1-3	**MUNICH**	International Fashion Week
	8-11	**DUESSELDORF**	IGEDO International Fashion Fair
	13-15	**COLOGNE**	International Fair CHILDREN and YOUNG PEOPLE
	14-22	**MUNICH**	33rd International Light Handicrafts Fair
	15-19	**COLOGNE**	Inland Waterways 81 International Inland Waterways and Ports Development Exhibition
	17-22	**FRANKFURT**	ISH, International Trade Fair Sanitation-Heating-Air Conditioning
	21-23	**DUESSELDORF**	GDS, International Show Fair
	21-29	**COLOGNE**	Fine Arts and Antiques Fair
	26-29	**COLOGNE**	Colour 81
APRIL	1-8	**HANOVER**	Hanover Fair
	4-9	**DUESSELDORF**	Euroshop Fitting-Advertising-Selling
	5-8	**BERLIN**	Interchic Fashion Fair
	8-12	**FRANKFURT**	International Frankfurt Fur Fair
	26-29	**DUESSELDORF**	IGEDO, International Fashion Fair
MAY	5-8	**FRANKFURT**	INTERSTOFF, Clothing Textiles Fair

	14-20	**DUESSELDORF**	Interpack International Trade Fair for Packaging Machinery, Packaging Materials and Confectionery Machinery
	19-22	**MUNICH**	Interhospital Hospital Supply Show
	22-26	**COLOGNE**	Interzum, International Fair for Accessories, Equipment, and Materials for Furniture Production, Interior Work, and Furnishings— Machines for the Upholstery Industry
	27-June 2	**HANOVER**	LIGNA International Woodworking Machinery and Supplies Fair
JUNE	1-4	**MUNICH**	Laster Opto-Electronics Congress and Show
	11-17	**DUESSELDORF**	International Mining Exhibition
	18-24	**DUESSELDORF**	REHA International Congress with Exhibition Aids for the Disabled
AUGUST	4-13	**BERLIN**	International Radio and Television Exhibition
	28-30	**COLOGNE**	International Men's Fashion Week
	29-Sept. 2	**FRANKFURT**	International Frankfurt Fall Fair
SEPTEMBER	10-13	**MUNICH**	ISPO International Sports Equipment Fair
	12-15	**COLOGNE**	SPOGA, International Sporting Goods Fair
	13-15	**COLOGNE**	International Garden Supply Fair
	13-16	**DUESSELDORF**	IGEDO, International Fashion Fair
	15-24	**HANOVER**	EMO European Machine Tool Exhibition
	17-27	**FRANKFURT**	IAA, International Motor Show
	19-Oct. 23	**MUNICH**	SYSTEMS Computer System and Application
	23-27	**BERLIN**	Overseas Import Fair, "Partners for Progress"
	23-28	**MUNICH**	IGAFA Hotel and Restaurant Show
	25-27	**COLOGNE**	International Fair CHILDREN and Young People
	26-28	**DUESSELDORF**	GDS, European Footwear Samples Show
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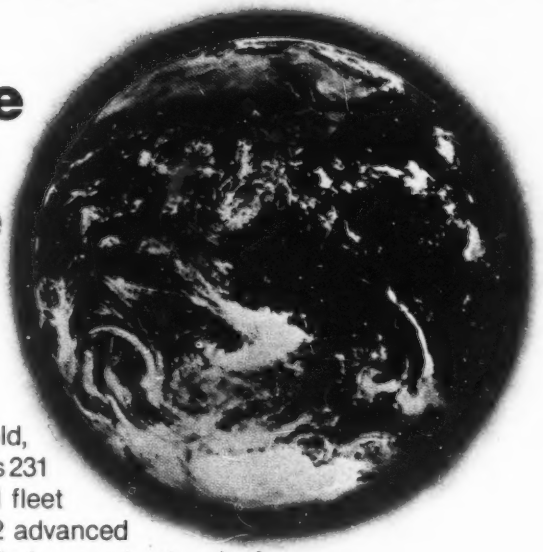

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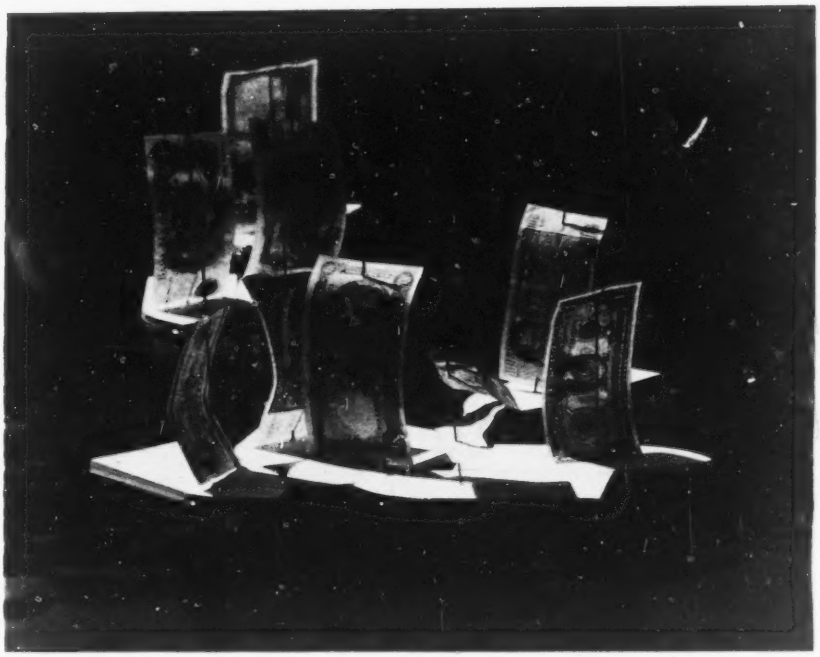
German Economic Engine Slows



Last year began with great promise, but ended on a sour note. Although economic activity surged in the first quarter, most leading indicators started falling in April and continued to decline for the rest of the year. The key postulates of German economic policy—price stability, economic growth, a high level of employment and balanced external accounts—all suffered during the course of the year. The prospects are not bright that the targets mandated for the "magic square" of German economic policy in 1967's Stability Law will be met in 1981.

A few statistics should suffice to contrast reality with ideals. The real gross national product expanded by only 1.8 percent in 1980 (versus 4.1 percent in 1979). On average for the year just ended, 889,000 people were out of work, which worked out to an unemployment rate of 3.8 percent. But the figure for December stood at an ominous 4.8. By way of contrast, Bonn's 1968 annual economic report defined "full employment" as 0.8 percent and "adequate economic growth" as a 4 percent rise in GNP.

While Germany's performance on the price front has been one of the best in the world (average inflation for OECD members in 1980 was about 12 percent), the country's average of 5.5 percent was still quite high by German standards. Still, this was down from 6 percent last winter. The major factor in driving prices up was the soaring price of imported raw materials, including oil. The awesome power of this inflationary motor can be gleaned from statistics compiled by Dresdner Bank, which calculates that these costs rose by 20 percent in 1979 and by a full 45 percent in 1980.

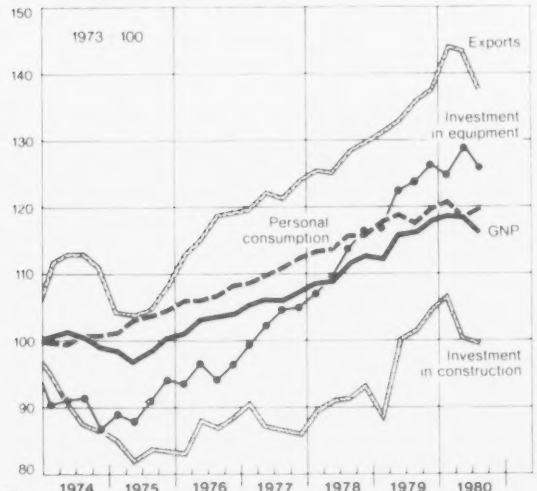
With respect to Germany's external accounts, 1980 was also a distinctly untraditional year. Long accustomed to strong surpluses in its current account, the Federal Republic last year stunned itself and the world by accumulating a deficit of DM 28 billion, the largest in the world. Analysts expect that, at the very best, this deficit will retreat to a level of DM 20 to DM 24 billion this year. In addition to its deteriorating terms of trade, Germany saw its export surplus trimmed by a rising volume of imported consumer and capital goods.

New realities

The economic mood of the country has turned sullen. A major source of anxiety stems from the emerging perception that Germany can achieve only very modest gains in reducing its heavy dependence on imported oil. The nation's ambitious nuclear power program has virtually ground to a halt, and other alternatives to oil will also be expensive and long term. On the positive side, the nation has made some progress in reducing oil consumption, which was down by about 9 percent by volume last year, and has oil reserves for 130 days. Moreover, approximately 50 percent of its oil comes from stable areas such as Saudi Arabia (25 percent), Great Britain (15 percent), and Norway (3 percent). Nevertheless, the grim reality is that Germany has become more and not less dependent on imported energy since the first oil crisis of 1973, with the imported share rising from 66.5 to 68 percent.

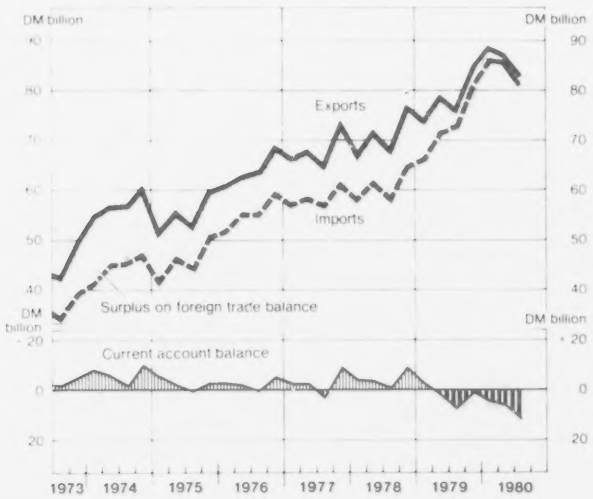
Another negative postulate is that the government enjoys far less flexibility today in the economic policies available to it than in previous periods of business decline. This time there are no funds with which to prime the pump. In the five years from 1976 to 1980, the central government, the Laender, and local authorities increased their indebtedness from DM 256 to roughly DM 465 billion. At this level, the government must act to reduce the expansion of the budget deficit, and the area most vulnerable to cuts will be a real decline in public sector investment, one of the government's major tools for stimulus.

Development of the real Gross National Product and its components +)

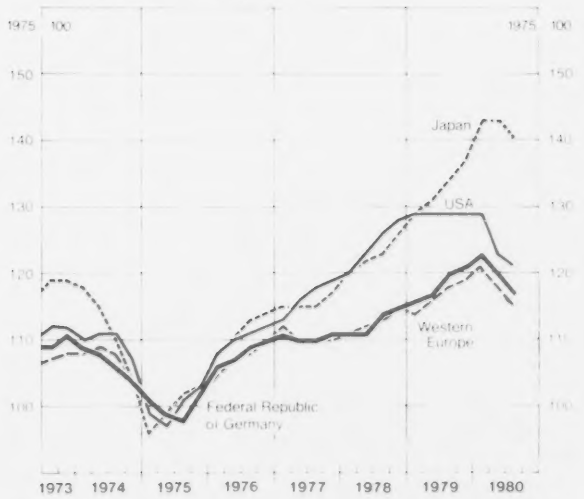


+) With seasonal and working day adjustments · Source: DIW Berlin

Foreign trade



Production in industry 1)



At the same time, the Bundesbank feels constrained to maintain interest rates at an internationally attractive level. This for two reasons. One is to bridge the current account gap by attracting capital from abroad and the second is to defend the DM by restricting the volume of funds that would otherwise leave the country in search of higher yields on foreign assets, mainly in the U.S.

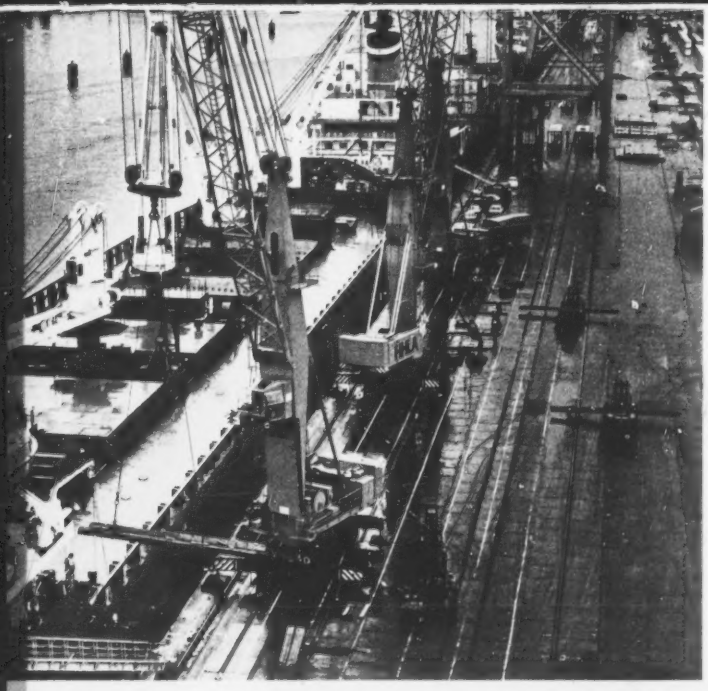
Industry turns down

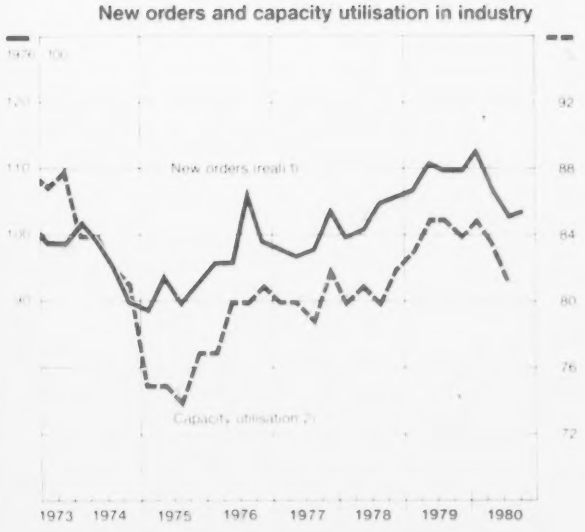
Industrial activity in the first quarter of 1980 came off the blocks at a pace of 7 percent, raising hopes that the original forecast of 2.5 percent growth for the year might turn out to be conservative. Even a fall to 1 percent in the April-June quarter was initially interpreted as a breathing space. As subsequent months demonstrated with breathtaking impact, the second quarter, and not the first, was to be typical for the year as a whole.

A major contributor to the sharp deceleration in economic activity in the second half was the construction industry, where investment experienced strong increases of 8 percent in 1979 and 9 percent in the first half of 1980, after adjusting for inflation. From July on, it was all downhill, with building output down 0.5 percent compared with the last six months of 1979.

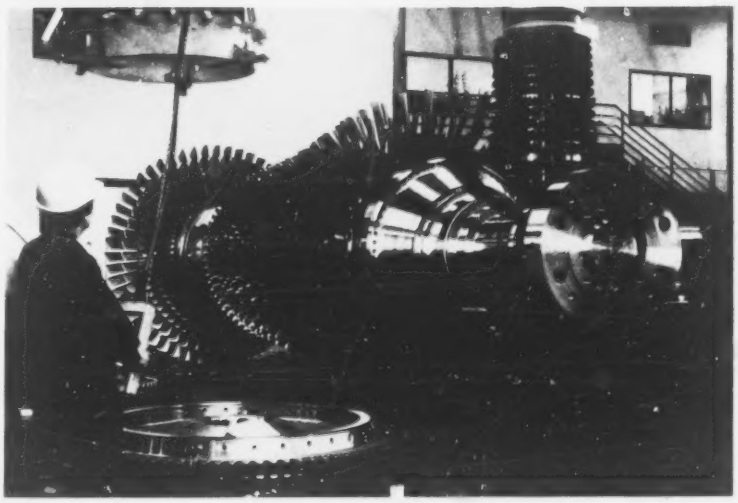
Consumer restraint and the drain of soaring energy prices on purchasing power were reflected dramatically in the automotive industry. A protracted period of rising car sales came to an abrupt halt last year as demand fell in both domestic and export markets; production for the full year declined by 8.7 percent. Commercial vehicle output, on the other hand, expanded by about 8 percent, supported by brisk demand abroad: exports were up by a full 15 percent on the year. As in the United States, Japanese penetration of the German market has reached disquieting proportions. In 1980 Japanese imports captured 10.4 percent of the shrinking German market, compared with some 6 percent twelve months earlier. By yearend, imports from all sources had captured a 26.3 percent market share, up from 24 percent in 1979.

As a result, the automotive sector has probably dropped from its leading sales position within the mechanical





engineering industry, which showed overall growth of 5 percent last year. The key stimulus to this performance was continuing brisk demand for capital equipment from the domestic private sector. The underlying factor in this trend is the need for more energy-efficient equipment and continuing pressure on Germany's export-oriented industries to maintain slim profit margins through modernization and rationalization of their production. Other major beneficiaries of this upbeat trend in capital goods orders have been electrical engineering, office equipment, and computers.



Modest expectations in '81

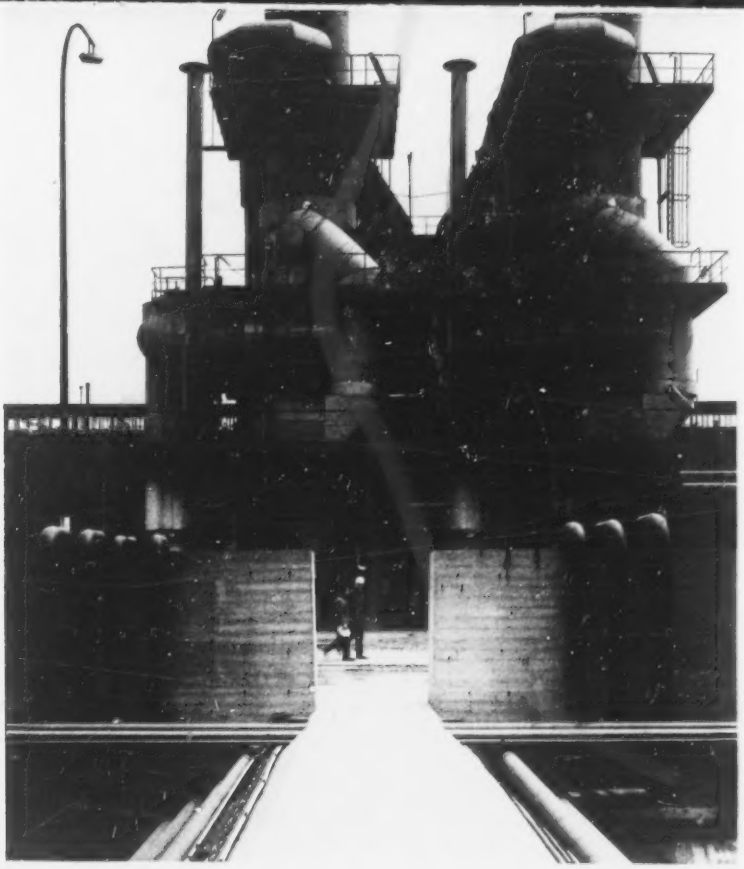
"1981 is a hard piece of road lying before us". The words stem from Chancellor Helmut Schmidt's New Year's speech to the German people and sum up the outlook of the Federal Republic's "first economist". Actually, the business prospects for 1981 are bad only by the high standards the Germans themselves have set for their performance. Within that frame of reference, 1981 could shape up as a year of consolidation, with the worst traumas buried in the 1980 statistics. Even so, expectations range from modest to negative, depending on the sector in question and the postulates involved.

The government's own macroeconomic projections reflect the misty outlook on the Rhein. Bonn expects real expansion in GNP to work out to a barely perceptible 0.5 percent, though independent analysts consider this a bit optimistic. In its annual economic report, the government says that inflation will slow down to an average 4.5 percent, but that unemployment will climb 1.5 percentage points to 5 percent of the work force, the highest figure in two decades.

Considerable hope rests on the continued momentum of capital investment in the private sector. Modest optimism is probably justified. There is no longer excess production capacity and steadily rising energy costs continue to render older generations of inefficient equipment unsustainably expensive. But the outlook is uneven. Office machines and computers have been growth leaders for some time and will presumably continue to maintain that distinction this year. Referring to his own firm, Heinz Nixdorf of Nixdorf Computer AG best describes the reason for the industry's uninterrupted growth: "In a boom, our customers are making money, so they buy computers. In a recession, they cut costs. How? By buying a computer."

The mood in the electronics and electrical engineering sector is somewhat less optimistic. Growth last year probably came to about 5 percent but incoming orders have slowed perceptibly. Telecommunications will again provide the most powerful stimulus, with the consumer goods sector also expanding slightly. Overall growth, though, will be modest.

This year's prospects for the key automotive industry are distinctly dimmer. In the face of high consumer interest rates and the energy drain on



buying power, output of cars will probably drop a notch or two. In addition, the mitigating influence of the smart jump of 12.7 percent in sales of commercial vehicles is unlikely to be repeated this year.

Most experts believe that the economy will dip in the first six months, with a mild recovery beginning in the third quarter. The DM, which has depreciated sharply versus the dollar and most other currencies this year, may be the genie in the bottle. Should the mark stabilize around the current level by mid-year, German exports should profit substantially without inflicting too much damage on the price picture. But the health of the DM is hostage to U.S. interest rates, and on that front forecasters have been conspicuously silent. ■

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International Leasing Update

Kenneth J. McLachlan

International leasing of tangible property such as computers, aircraft and oil tankers has become increasingly significant in the past few years as a way to finance large capital asset acquisitions. This article explains the tax consequences to both the lessor and the lessee of (1) the use of different types of leases and (2) the use of different countries as locations for leasing operations. It also discusses the use of captive international leasing companies by multinational businesses.

A lease is a contract of hire conveying the right to use an asset from the owner of the asset to a lessee for a specified period of time for a specified rent.

The lessor remains the owner of the asset and the lessee does not, in general, have a right or an obligation to purchase the asset either during or after the term of the lease. The fundamental characteristic of leasing is the segregation of the ownership and use of an asset.

Leases can be designated as either "operating" leases or "finance" leases. The distinction is crucial for income tax, TVA (VAT), exchange control and customs purposes. The distinction also can be important for financial statement purposes.

An operating lease is a true lease in that ownership and use of the asset are separated. The following characteristics indicate operating lease status:

- Profit of the lessor is affected by lease-end asset values;
- Lease term covers only part of the useful life of the asset;
- Lessor remains responsible for the maintenance and insurance of the leased asset; and
- Lessor may be required to take the leased asset back prematurely.

A finance lease is one where, although it is in form a lease, in substance the lessor is lending money. His profit comes from interest. The following characteristics indicate finance lease status:

- Profit of the lessor does not depend on lease-end values;
- Lease term covers the useful life of the asset;
- Lessee is responsible for the maintenance and insurance of the leased asset;
- There may be a penalty clause for premature termination of the lease; and
- Lessee has an option to purchase the asset at the end of the lease.

Tax depreciation allowances

A vital question in any leasing transaction is who can claim the tax depreciation allowance on the cost of the equipment—the lessor, the lessee, or both?

In a number of countries the answer depends on whether the transaction is considered an operating lease or a financial lease. These countries have sets of criteria, official and unofficial, that determine this status.

In other countries there is no distinction between an operating lease and a financial lease, and only the lessor may claim the tax depreciation allowances, regardless of overwhelming finance lease characteristics. Where the countries of the lessor and lessee use different criteria for allocating the tax depreciation allowances, it is possible for both the lessor and lessee to get a depreciation allowance.

Germany

German authorities look at "economic ownership" in deciding who gets the tax depreciation. In leases of the operating type it usually is the owner. In financial type leases, it usually is the lessee.

Economic ownership is the right to use property, legally belonging to another, for a period long enough to reduce the value of the property to a point that the legal right is insignificant.

Germany has complex rules for determining economic ownership. The tax authorities have issued decrees (rulings) in which economic ownership is determined in fairly typical circumstances. The decrees make a distinction between full-payout contracts and non-full-payout contracts. In full-payout contracts, the parties (1) agree to a rental period during which the contract may not be terminated by either party and (2) the payments during this period cover at least the lessor's costs, including the cost of the equipment and financing. Arrangements that do not meet both these tests are non-full-payout contracts.

The German tax authorities have

Mr. Kenneth J. McLachlan is partner in charge of the Price Waterhouse Office in Amsterdam. He is a member of the Price Waterhouse International Technical Tax Advisory Panel. His main practice area is tax consulting on international business transactions.

ruled as follows regarding full-payout contracts:

- Economic ownership is in the lessee if the asset was manufactured to the specifications of the lessee and, as a result, will be of only limited commercial use to the lessor at the end of the rental period.
- Economic ownership is in the lessor if the contract contains no options to purchase and/or to extend the lease following the rental period and the rental period is from 40 percent to 90 percent of the normal useful life of the equipment stated in the depreciation tables. If it is outside this range, economic ownership is in the lessee.
- Economic ownership is in the lessor if (1) the contract provides a purchase option and/or an option to extend the rental period and (2) the purchase price and/or the rentals payable during the extended rental period are determined at arm's length (if they are not arm's length, economic ownership is in the lessee). There are criteria for determining arm's length prices and rentals.

The following are German rulings regarding non-full-payout contracts:

- Economic ownership is in the lessor if he has the right to require the lessee to purchase the asset at a predetermined price at the end of the rental period.
- Economic ownership is in the lessor if it is agreed that the asset will be sold by the lessor after the basic rental period and both (1) the lessor is entitled to claim from the lessee any short fall between (i) the total rentals received and the sales proceeds and (ii) the lessor's total cost; and (2) the lessee is entitled to claim 25 percent or more of the positive difference (if any) between (i) the total rentals received and the sales proceeds and (ii) the lessor's total cost.
- Economic ownership is in the lessor if (1) it is agreed that the lessee may terminate the contract after a period of at least 40 percent of the asset's normal useful life, and (2) the lessor has a claim for any positive difference between (i) his total cost and (ii) the rentals received and 90 percent of the sales proceeds. The lessee, however, has no right to participate in the sales proceeds.

United States

Whether a lease is considered an operating lease for tax purposes depends on the intent of the parties as evidenced by the lease agreement and the facts and circumstances existing at the time the agreement is executed. The Internal Revenue Service has stated that the presence of any of the following factors indicates that a lease in substance is a conditional sale:

- Portions of the rent are specifically applicable to an equity to be acquired by the lessee.
- The lessee will acquire title upon the payment of a stated amount of rentals which, under the contract, he is required to make.
- The total amount that the lessee is required to pay for a relatively short period of use is an inordinately large proportion of the total required to be paid to secure the transfer of title.
- The rental payments materially exceed the current fair rental value.
- The property can be acquired under a purchase option at a price (1) that is nominal in relation to the value of the property at the time the option can be exercised, as determined at the time of the original agreement, or (2) that is relatively small compared to the total rental payments to be made.
- Some portion of the rent is designated as interest or is otherwise readily recognizable as the equivalent of interest.

Treatment in home country

The distinction between operating and financial leases is important, not only for determining who gets the depreciation allowance, but also because it affects how lease payments are taxed to the lessor in his home country. Depending on the type of lease, the receipts will either be fully taxable (operating lease) or treated as installments of the sales price plus interest (financial lease).

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When the lessor incurs tax in the lessee country, the following points are relevant in determining what relief, if any, he can get in his own country:

- Domestic legislation.
- Existence of a relevant tax treaty.
- The type of tax incurred in the lessee country; for example, withholding tax or corporate income tax.

Where there is a tax treaty between the lessor and lessee countries, relief normally is given in the lessor country, either by allowing the foreign taxes as a credit or by exempting the income from tax. However, there can still be problems. For example, in the United Kingdom there may be a limitation on the credit where the withholding tax has been levied on the gross lease payments, and the domestic credit is given only against net income. Another problem that may arise in this context is where the lessor has no tax liability against which to offset the credit.

Other factors that need to be considered by the lessor in his home country are:

- Exchange control permission may be required to lease to nonresidents (for example, Italy), or two-tier exchange rates may create a hidden expense.
- There may be restrictions on setting up a leasing business and/or it may be necessary to register the lease contracts; for example, in France only certain financial companies may engage in leasing.
- Investment incentives may not be granted on assets leased to nonresidents.

Treatment in lessee country

An important consideration for the lessor is whether he has a "permanent establishment" in the lessee country as a result of his leasing transactions. This will depend initially on domestic law and secondly on the tax treaty, if any, between the two countries.

Generally, the effect of merely leasing in a country will not, in itself, create a permanent establishment. But when other activities, for example, maintenance services, etc., are provided in the lessee country, a permanent establishment could be created. This would subject the profits of the permanent establishment, including leasing profits, to local taxes. However, this effect on leasing profits can be avoided if the maintenance services, etc. are provided by a subsidiary that is not involved in the leasing transaction. Only the profits from the maintenance services would then be taxable in the lessee country.

Where the lease is considered a financial lease, the lease payments may be considered to be installments of the purchase price and thus usually not subject to tax. The interest element, though, may be subject to withholding taxes (discussed following).

It also is important to determine who under local law is the legal owner of the asset. This is particularly so in the event of a dispute, or where the safeguarding of title is important.

It should be noted that for the lease to be valid and enforceable, it may be necessary for either the lessor or the lease to be registered with the local authorities. For example, financial leasing companies operating in Spain must register with the Ministry of Finance.

Treatment of lessee

The tax treatment of lease payments often will depend on whether the lease is operating or financial. Normally, payments under an operating lease will be considered installments of the purchase price plus interest. Tax depreciation allowances will generally be available for the purchase price and a tax deduction allowed for the interest factor. In countries where no distinction is made between operating and financial leases, lease payments normally are allowed in full as deductions. France, Belgium and Switzerland take this approach.

In Germany, however, the treatment for trade tax is different. The lessee in an operating lease has to add back 50 percent of the rent payments in arriving at this taxable income for trade income tax purposes if the lessor is nonresident, and therefore not liable to pay trade tax. In a financial lease, the lessee has to add back the outstanding loans and interest in arriving at the tax basis for trade capital tax purposes, since the transaction is deemed to be a purchase.

The trade tax implications for the German lessor are that loans in a finance lease must be added back to arrive at the tax basis for trade capital tax purposes and, in addition, interest paid on these loans must be added back to arrive at taxable income for trade income tax purposes.

The above add-back provisions normally do not apply to German banks or subsidiaries of German banks or bank branches in Germany, as either lessors or lessees, except the 50 percent add back for leases under operating leases does apply.

Withholding taxes

Article 12 of the OECD model tax treaty defines "royalties" as:

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". . . payments of any kind received as a consideration for the use of, or the right to use, . . . industrial, commercial, or scientific equipment. . ."

A number of tax treaties are based on the OECD model and therefore treat lease payments as royalty payments, and subject them to the same withholding tax rates. However, many tax treaties reduce the withholding tax on royalties to zero.

For example, the treaties of Belgium, France, Germany and the United States usually provide for zero withholding on royalties, rather than their statutory rates respectively, of 20 percent, 33⅓ percent, 25 percent and 30 percent. The usual treaty rate for Canada is 15 percent instead of its statutory rate of 25 percent. On the other hand, under the domestic laws of the Netherlands, Switzerland and the United Kingdom there are no withholdings on lease payments.

Sales tax and TVA (VAT)

Where a country imposes a sales tax or TVA, it normally will be paid by the importer of the asset. Where the lessor has a permanent establishment in the lessee country, the lessee will be the importer and be liable for the TVA. Otherwise the lessee will be deemed to be the importer.

The valuation of a leased asset for TVA purposes will follow the valuation for import duties, as discussed above, but the import duties normally will be included in the asset valuation.

Where the importer of the asset (whether the lessor or the lessee) is registered for TVA purposes, it will usually be possible to defer the TVA payment until the next TVA return is submitted to the authorities. Where the importer is not registered, the TVA usually will be payable immediately. Thus registration can improve cash flow.

TVA on lease payments

Payments of lease rentals under operational leases normally are deemed to be services for TVA purposes. Therefore TVA is charged on the lease payments at the usual rate. However, for EEC countries, lease charges to nonresidents are treated as exports and, as a result, are zero rated. On the other hand, where the lessor has a permanent establishment in the lessee country, the lease charges will include TVA. For lease payments to lessors in non-EEC countries, the lessee will be liable for TVA payments.

In the case of financial leases, generally no TVA will be payable on either the capital repayment or the interest.

In a number of countries, TVA paid by foreign lessors is refundable if certain formalities are followed. These countries include Belgium, France and the Netherlands. In Germany the turnover tax on imports can be reclaimed by the economic owner of the asset.

International leasing companies

In the international context and in intragroup relationships, leasing can be used to both defer and avoid tax. It also can be used to safeguard the assets of a group.

A number of situations call for establishing an international leasing company:

- If a subsidiary is located in a politically unstable country, lease payments may be a more acceptable method of extracting funds than dividend, interest or royalty payments.
- In a politically unstable country there will be more chance of recovering the assets (or at least obtaining compensation for them) in the case of nationalization if they are not owned by the local subsidiary.
- Where a company is in a high risk business, leasing may insulate equipment from possible claims.
- Leasing provides an effective method for off-balance-sheet financing, which may be advantageous from a disclosure point of view in countries where generally accepted accounting principles do not require the capitalization of finance leases for financial statement purposes.
- It may be possible to arrange leasing transactions to obtain favorable tax concessions or investment incentives; for example, depreciation in both the lessor and lessee countries.

The ideal characteristics of an international leasing company location include (1) no exchange control restrictions, (2) a strong currency, (3) political stability and (4) a wide network of tax treaties to eliminate withholding tax on lease payments and payment of dividends by the leasing company to its parent. The end result, ideally, would be that profits arise in a low tax country, tax deductible expenses such as depreciation and lease payments arise in a high tax country, and there are no withholding taxes on rent payments and on dividends to the parent of the leasing company.

Anti-avoidance laws

Many of the major industrial countries have anti-avoidance provisions in their domestic laws that detract from the theoretical advantages of international leasing cmpanies.

These provisions may be applied through fiscal legislation, exchange control regulations, domestic company law and arm's length pricing restrictions. They include (1) the United States' Subpart F rules that restrict the benefits of using tax havens as the site of international leasing companies, (2) French tax rules concerning payments to tax haven countries, (3) Belgian restrictions on the tax deductibility of lease payments to tax haven companies, (4) German foreign base company income provisions and (5) the 1962 Swiss anti-abuse of tax treaties legislation, which applies to both royalties and lease payments.

Conclusion

Despite these restrictions there remain very substantial benefits from the correct structuring and location of leasing arrangements. They can provide many advantages, not only on the tax front, but also from the commercial viewpoint. No one structure or location will always be the most favorable. Each case must be looked at separately to ensure that the most favorable arrangement is made in light of individual requirements and objectives.

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Licences and Investments

Packaging and wrapping machinery for the use of polyvinyl chloride and polyethylene foils in industry and trade. The German firm claims to have a particularly good reputation in the line of energy-saving automated machines for shrinking and extending plastic foils. Franz-Josef Meurer. MeurerVerpackungsmaschinen. Von-Tambach-Str. 3-5. 4577 Fuerstenau.

Maintenance of machinery in large industrial plants. Opportunity for two-way investment and joint venture in the U.S., preference would be given to compatible U.S. firms in the state of California, and West Germany for servicing company. Walter Heidenreich. Gen. Mgr., HFICO. Heidenreich Gebaeudereinigung. Ruedesheimer Strasse 42. D-6203 Hochheim am Main.

Production of winter feed for outdoor song birds made from beef suet. Firm seeks medium-size U.S. manufacturer with sufficient experience in the processing of beef suet for bird food in the states of New York, Washington, and Pennsylvania. Reportedly, firm has developed successfully its own technique and equipment for the manufacturing of bird food from beef, which it s[illegible] to leading supermarkets and dep[illegible]tment stores all over West Germany. Walter Hans, Owner/Mgr., Walter Hans Vogelfutterfabrikation, D-5400 Kiblenz-Schlachthof.

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German American Trade News, Box 910,
666 Fifth Avenue, New York, NY 10103.

Foaming of plastics for window frames. The aluminum reinforced window frames are coated with colored polyurethane. Also, the German company offers a suitable form of joint venture arrangement at its base to U.S. companies seeking to gain a foothold in the German and European markets. Herr Manfred Roth, Gen. Mgr., Roth Werke GmbH, Postfach 60, D-3563 Dautphetal 2 (8uchenau).

Wire treatment and finishing field. Firm plans a financial participation of approximately U.S.$350,000 in a well-established American firm with a staff of approximately 20-30. Rudolf Hartl, Owner, Rudolf Hartl Draht- und Metallwarenfabrik, Sommerhaldenstrasse, 35, D-7057 Winnenden—Hoefen 6.

Biological waste water purification and regeneration process, plant, and equipment, designed for the purification and regeneration of up to large volumes of municipal, industrial, and agricultural waste waters: combines the functions of activated sludge and trickling filter-system in one single unit. This patented system called "Staehlermatic"; reportedly, numerous such installations have been put into operation successfully in West Germany and foreign countries. The West German company wishes to acquire similar such know-how and technology if developed in the United States. Staehler & Friedrich GmbH, Manager-in-Charge, Kennedyallee 78, D-6000 Frankfurt/Main-70.

Optical recognition equipment. Firm is interested in exchanging technology and know-how licenses with U.S. partners in the field of optical recognition equipment as well as in arithmetical computer applications in problem cases. The German firm is interested in hardware as well as innovative software, and other electronic equipment not limited to com-

puter systems. Messrs. Bewerunger and Mayer, Business Managers, Computer Gesellschaft Konstanz mbH, Max Stromeyer-Str. 116, D-7750 Konstanz.

Gas heating stoves with thermostat for room heating. Importers, exporters specializing in export to Far East, estab. 1971, turnover DM 6 million. Reply to—Frau Kuppe, Hermann Strack. Kleine Rosenstrasse 8, 2000 Hamburg 1, W. Germany. Tel. 040-32 71 48.

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Money's Worth

1. A guide entitled "Meeting German Business" has been published by the Atlantik Bruecke. The guide, in English, contains concise summaries of important aspects of doing business in the Federal Republic. Tips on such things as business luncheons in Germany, correspondence and language obstacles are included along with descriptions of the banking community, the stock exchanges, the business press and organized labor. The guide may be ordered from the German American Chamber of Commerce (Attn.: Gunter Nitsch) for $5.00 per copy. Please enclose check with your order.

2. A new mini-industry is springing up in the travel business that has nothing to do with transportation, lodging or feeding of travelers. It rather is involved with the legitimate concerns we all have about our health while on the road and the availability of proper medical facilities. A half-dozen new companies now are in the business of rescuing ill and injured travelers who are away from home and delivering them to an appropriate medical facility. One such company, Near Inc. of Oklahoma City, is reporting success with its worldwide medical evacuation program. For $62 per year for an individual, $86 for a family, Near Inc. will guarantee to return any sick or injured member to his or her home from anywhere in the world. In addition, Near Inc. takes care of the hundreds of minor and major details in repatriating the infirmed traveler, arranging for transportation, getting ambulances, forwarding medical records, maintaining contact with the family, coordinating medical services overseas, preregistering travelers in their hometown hospital, etc. In the case of death outside of the country, Near Inc. will take care of the problems of returning the body from overseas. Few travelers carry the funds necessary for a sustained stay in a hospital oversas. Even if medical expenses are eventually covered by the travelers' health insurance, there is not much chance that an overseas hospital will wait for payment. As an option available at an annual cost of $40 for a member, $20 additional for spouse and $12 for each child under 18, Near Inc. will provide for the transfer of funds up to $5,000 for medical costs. Near Inc. can be contacted at 1900 N. MacArthur Blvd., Oklahoma City, OK 73127.

Assist Card also is in the business of providing travelers with medical aid away from home. The Assist Card organization is considerably larger than Near Inc. but limits its coverage to 56 countries around the world. Cardholders receive medical services up to a cost of $3,000 and prescribed medication up to $500. Emergency evacuation either to home or to an appropriate medical facility nearby is also provided. In addition to medical and evacuation assistance, Assist Card offers a wide variety of other services of value to travelers in trouble. Lost items, such as luggage, travel documents, money, etc. are tracked down. There are interest-free loans available to members. Lawyers are arranged for, if required. Unlike Near Inc., which charges a straight annual fee to join, Assist Card can be purchased to cover the length of the overseas trip. The cost ranges from $20 for up to five days, to $120 for 90 days of coverage. Those who are frequently traveling can buy a year-long corporate membership for $350. Assist Card Corp. of America can be contacted at 745 Fifth Avenue, New York, N.Y. 10022.

3. Both American Express and Diners Club, the leaders in the so-called "travel and entertainment" charge-card field, offer check-cashing privileges for their clients. Holders of green American Express cards can cash personal checks up to $1,000 at offices of the company or its agents around the world. You can receive up to $200 in local currency and $800 in American Express traveler's checks (for which you will have to pay the normal fee of $1 per $100). In the United States you can make one such transaction every seven days; elsewhere, once in 21 days. The money cannot be charged to your American Express account; you must use a personal check and have it charged against your bank account, which must contain enough funds to cover it if you want to avoid a lot of trouble later. Diners Club has more restricted check-cashing facilities, with a $500 limit. Both organizations have programs for cashing personal checks of up to $250 at "participating" hotels, motels or airline counters, but it is often difficult to learn in advance which ones are participating. Also, these programs are subject to availability of cash, which could be a problem late at night or on weekends.
Visa, Master Card and the American Express gold card (which, unlike the green card, involves a line of credit) allow you to get cash advances at participating banks and some other places. These advances are regarded as loans, and interest will accrue from the moment you receive the money. You cannot get a bigger advance than what is available within the limit of your line of credit with Visa and Master Card, often only a few hundred dollars.

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German, (26), interpreter/translator, diploma in English, French, Economics, Spanish, with 3 years experience as Management Trainee (Administration, Import, Export) in International Companies in Great Britain, France and Mexico, seeks assistant position with German-American firm. Prefer New York area. Willing to travel. Available April 1, 1981. Please contact: German American Trade News, Box 145, 666 Fifth Avenue, New York, NY 10103.

President/General Manager. (46), German national, successful U.S. and foreign P & L responsibility in major automotive distribution firm, seeks challenging opportunity, preferably with equity participation. Now L.A. area resident. Contact: German American Trade News, Box 147, 666 Fifth Avenue, New York, NY 10103.

German, (34), international forwarder with experience in Europe and overseas (forwarding and shipping agency). Fluent English, French and some Spanish. At present representing international forwarding organization. Seeks interesting, dynamic and responsible position within forwarding co. or industry in U.S. or Europe. German American Trade News, Box 148, 666 Fifth Avenue, New York, NY 10103.

German, (28), fluent in English, single, presently working with American firm in Germany, seeks long-term working assignment in the U.S., with German or American company. Educational background: U.S. High School diploma and German university degree in Economics. German American Trade News, Box 140, 666 Fifth Avenue, New York, NY 10103.

Management, Administration/Finance: German, (38), M.B.A., education in U.S. and Europe, 9 years experience as Comptroller in int'l. medium-size company in Greater New York area; thorough knowledge in German and U.S. Accounting, Banking, Budgeting, Financial Reports and Administration. Familiar with computer operation, seeks more challenging position in management of international company; willing to relocate. German American Trade News, Box 141, 666 Fifth Avenue, New York, NY 10103.

German/English Executive Assistant/ Secretary seeks challenging position with diversified duties. Initiative, strong administrative skills, steno and typing in both languages, own correspondence, facility with figures. Please reply to German American Trade News, Box 142, 666 Fifth Avenue, New York, NY 10103.

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Industrie Kaufmann, General Manager with German industrial business education and 16 yrs. in U.S. market place, seeks lucrative position with German-American firm. Will relocate within U.S. Renate Shoemacker, P.O. Box 123, Solana Beach, CA 92075.

Dipl. Ing./M.B.A., German-American with 7 years U.S. industry experience in marketing, finance, production and general management. Interested in marketing or general management position in German-American concern. German American Trade News, Box 144, 666 Fifth Avenue, New York, NY 10103.

PR/PA Manager: German, (31), experience in agency, non-profit and corporate PR, German and U.S. journalism; master's in PR with business background. Contact: C. Neveux, Thomas Mann Strasse 9, 6457 Maintal 2, Federal Republic of Germany.

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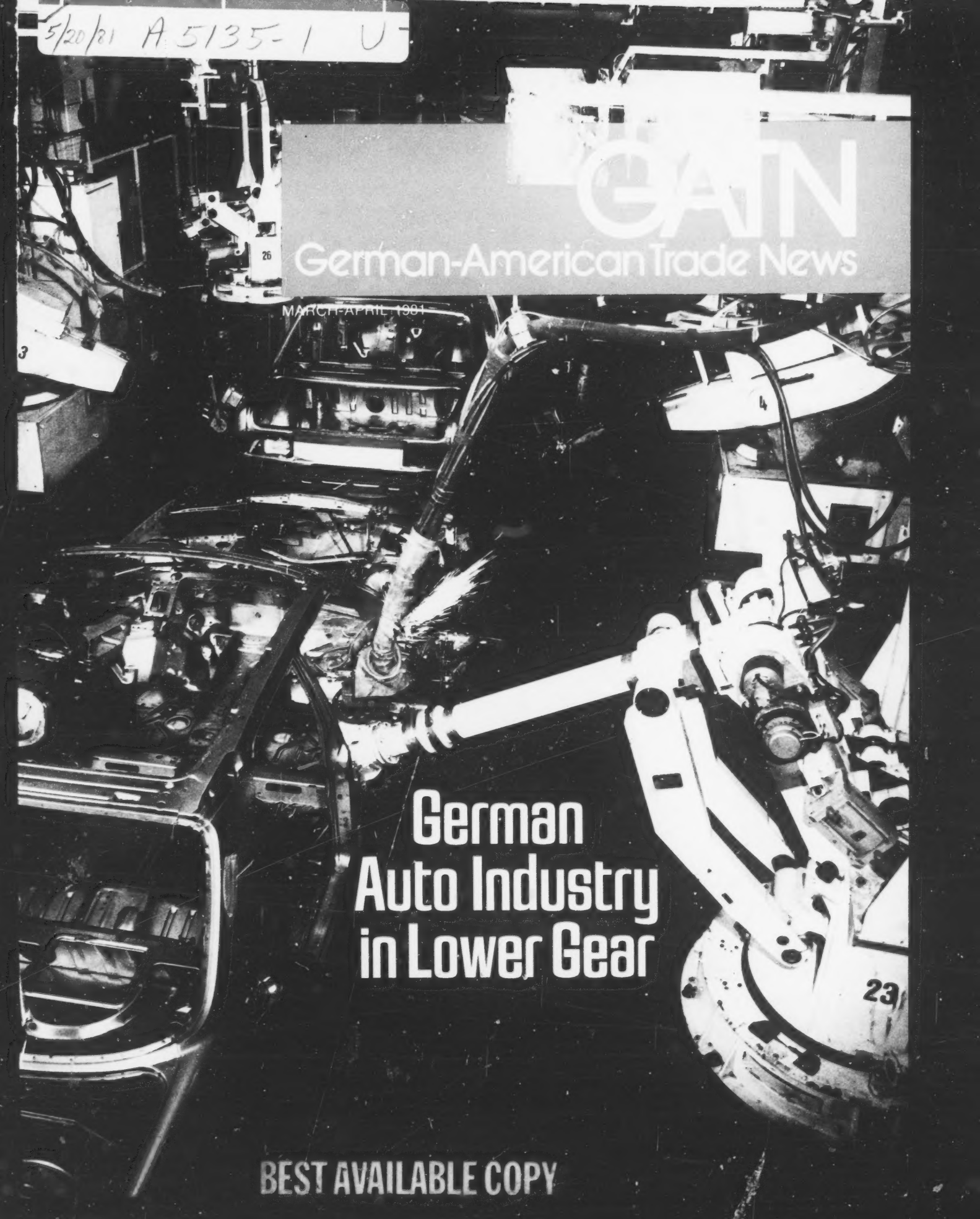


German Auto Industry in Lower Gear

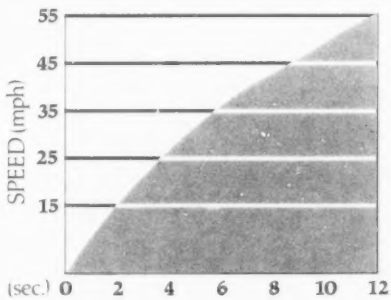
BEST AVAILABLE COPY

For 1981, Mercedes-Benz offers the high-performance turbodiesel buyer a delicious agony of choice.

The most powerful automotive diesel engine in the world now powers both the new 300 SD Sedan and the 300 TD Station Wagon.

Mercedes-Benz seems bent on dominating the next automotive decade as it has dominated the decades before: by the sheer force of engineering brainpower and technical finesse.

The unique five-cylinder Mercedes-Benz turbodiesel engine makes an eloquent case in point. The engineers' foresight made it the world's first production automotive turbodiesel by a three-year margin (after the engineers' typical thoroughness had first subjected it to five years of development). A prototype version powered the C-111/3 research car to an average speed of 195.39 mph for 12 hours in 1978. It was a hint of things to come: the industry has since responded with V-8 diesels and even other turbodiesels —but this three-liter Mercedes-Benz powerplant outpowers them all. Meanwhile, it is more nearly *silent* than any diesel in Mercedes-Benz history.



Both 300 SD and 300 TD hit 55 mph in just 12 seconds.

But the final surprise may be the best. For 1981, Mercedes-Benz turbodiesel power comes in sedan *and* station wagon form.

And the new 300 SD and the 300 TD are not only both faster than their predecessors up to 55 mph, but the performance

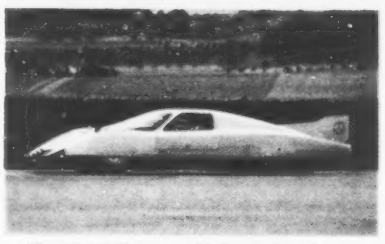
boost is accompanied by a boost in mileage – up to a lofty 26 EPA estimated mpg, 30 estimated highway mpg.*

The new 300 SD Turbodiesel Sedan combines what may be the ultimate diesel powerplant with what may be the ultimate diesel automobile. It has just emerged from seven years of development, clad in a body so aerodynamically pure that its 0.36 drag coefficient embarrasses virtually every other passenger car sold in America today.

An exotic high-strength steel helps make that body both lighter *and* stronger than its rugged predecessor.

This 300 SD rips even faster from a standstill to 55 mph than its illustrious forerunner. A new torque-converter automatic transmission makes it hard to even feel gear changes.

No production sedan extant can claim superior roadholding. No diesel automobile ever devised can rival the 300 SD's comforts. Item: the separate fresh air and air conditioning console for rear seat passengers.



The C-111/3 proved Mercedes-Benz Turbodiesel reliability and efficiency by averaging 195.39 mph – and 14.7 mpg – for 12 grueling hours.

World's least mundane station wagon?

The added thrust of turbocharging makes the 300 TD Station Wagon perhaps the most versatile Mercedes-Benz in 95 years.

The 300 TD raises the station wagon up to Mercedes-Benz standards of ride and comfort and strength – earning *Car and Driver's* accolade in 1980 "...it is not only the best wagon we've tested, it ranks right up there as one of the all-time best *cars* in our experience."

For 1981, added to this heady equation is the character of a performance machine. A supremely liveable five-door performance machine with 73.85 cubic feet of cargo capacity.

A happy dilemma

The 300 SD Turbodiesel Sedan, or the 300 TD Turbodiesel Station Wagon? There has seldom been a more agonizing choice.

Or a more delicious one.

*EPA estimate for comparison purposes. The mileage you get may vary with trip length, speed and weather. Actual highway mileage will probably be less.

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Europe's leading diesel-car makers

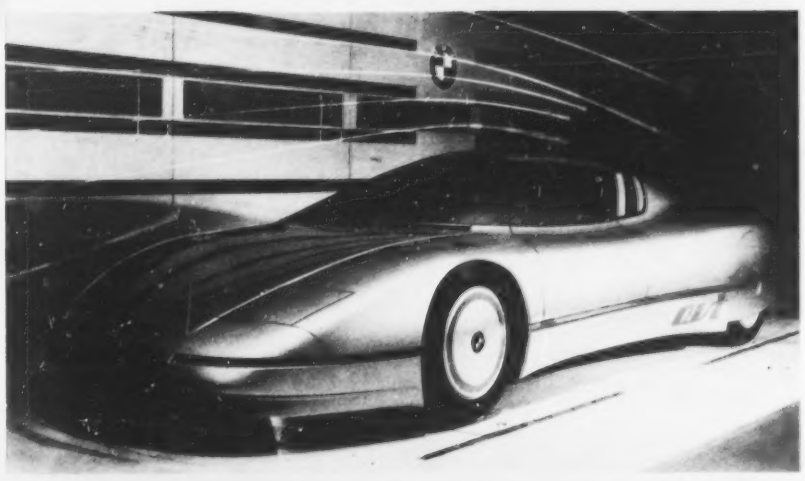
Manufacturer	1979 Production	Pct. of Total
VW-Audi	268,000	16.5
Daimler-Benz	195,467	45.1
Peugeot	146,912	19.4
Citroen	53,684	7.9
Opel	51,533	5.4
Fiat	50,803	4.7
Seat	17,783	6.0
Volvo	13,300	4.4
Ford–Germany	9,912	1.8
Renault	3,565	0.2
Talbot–Spain	3,319	4.5

ers have been heralding the dawn of a new era, that of the "world car", Volkswagen has been building such vehicles for years. The concept, in its simplest terms, means that a company would build up an extensive global network of plants, with substantial interchangeability of parts and components. In addition to its headquarters giant in Wolfsburg, VW has German plants in Hanover, Kassel, Emden, Brunswick, and Salzgitter. Outside of the Federal Republic, manufacturing facilities can also be found in such places as Vogosca, Yugoslavia; Sao Bernardo do Campo, Brazil; Puebla, Mexico; Lagos, Nigeria; and, of course, Westmoreland, Pennsylvania.

The firm's market penetration varies from country to country almost as widely as the national flags represented in its global production palette. In the Federal Republic last year, VW captured 30.3 percent of the market (versus 31.5 in 1979), and it dominates the Brazilian auto market. In the U.S., its share currently runs at about 3 percent, but it is growing.

BMW's chief, Eberhard von Kuenheim, denies flatly that there is a crisis of any sort. He stresses that last year's modest decline of 8.7 percent followed on the heels of a five-year boom and, in terms of domestic sales, was the fourth or fifth best year in the industry's history. In his opinion, last year's drop in sales was, in fact, a reflection of demand having gotten temporarily ahead of the real market by the end of the boom.

Interestingly, in an interview last last year with Germany's *Wirtschaftswoche*, v. Kuenheim predicted that by 1984 or 1985 the main external factor in Germany's domestic market would emanate from the U.S. Noting



that G.M. alone would be investing $40 billion over the next few years and that both General Motors and Ford could draw upon the small-car know-how of their German subsidiaries, he predicted that they would push the Japanese back from the American market and become even more competitive in Germany.

Kuenheim sees the major challenge to maintaining the German industry's competitiveness in raising its productive efficiency. Apart from capital investment, which will be substantial over the next few years, he stresses the need to raise the efficiency of labor input. According to BMW's president, the German auto worker puts in 202 days per year, compared with 237 and 257 days for U.S. and Japanese auto hands respectively.

No doubt about it, the Germans - and the other Europeans - have been administered a jolt in the ribs. The Japanese challenge, in conjunction with rising fuel prices, shrinking consumer purchasing power, and the lackluster prospects for the business climate, are cause for concern. For the intermediate term, these factors suggest that a return to growth is not in the cards. Germany's auto producers are clearly on a slower track for the next few years and will have their hands full keeping output at or near current levels. Prospects for the longer term are decidedly brighter. German small-car design is state-of-the-art, with German engineers in the vanguard in the automotive technologies of downsizing, minicomputers, microelectronics, drag coefficients, and the like. And they are backing their effort to achieve technical and production efficiencies with prodigious investments. This year alone total capital investment is due to rise by DM 1.0 billion to DM 10.2 billion. When the overall environment becomes more propitious, Germany's producers should be well positioned to move back into high gear. ■

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GATN
German-American Trade News

Werner Walbrol — Executive Director

Benigna Kirsten — Advertising

Magdalena Wolf — Circulation

Richard Jacob — Editor

The **German American Trade News** is published bimonthly by the German American Chamber of Commerce, Inc., 666 Fifth Avenue, New York, New York 10103 and also distributed at regional Chambers in Atlanta, Chicago, Houston, Los Angeles, San Francisco and Washington, D.C. Subscriptions in the United States and Canada $9.00 per year, $18.00 for 3 years, other countries $12.00 yearly, overseas airmail $24.00 per year. Single copy price $1.50. For change of address, please give old as well as new address including zip code (if possible, enclose address label from magazine). Allow 4-6 weeks for change.

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Produced by World Composition Services, Inc., 432 Park Ave. So., New York, NY 10016. Controlled circulation paid at New York, New York.

Address all correspondence and inquiries to German American Chamber of Commerce, Inc., 666 Fifth Avenue, New York, New York 10103. Tel. (212) 974-8830.

Chamber Commentary

Meeting the challenge

Reindustrialization, restructuring, renewal. Each of these terms has been applied over the past year, with varying emphasis, to the major contemporary challenge of Western industrial societies. In its briefest conception, it will entail a massive and complex program in each nation to reorient industrial output to the manufacture of high technology products and rehabilitate industrial plant to the most efficient level of production. It will be massive in that it will eventually embrace almost the entire spectrum of industry, and complex in the sense that it will involve a fine orchestration of technology, capital investment, and incentives.

This process of revitalization is not merely desirable, it has become urgent and imperative. This arises from many factors. The exploding cost of energy, maturing markets, and persistent inflation are but a few. Not least of all, global Japanese competition—in the U.S. and European as well as third markets—has defined the immediacy and scope of the operation.

Increasingly, the Japanese have been singled out as the preeminent danger. I would suggest that such loose talk focuses in on the appearance and not the essence of the challenge from Nippon. Although Japan's import and trade policies have many rough edges, their commitment to excellence—as a nation and a people—looms large in their persistent pattern of success.

Productivity represents a major link in this chain. The Conference Board in New York City recently quoted some interesting international comparisons. With 1967 as the base of 100, output per hour in the United States rose from 115.7 in 1972 to 129.2 in 1978. During this same period, output in Japan leaped from 162.3 to 215.7, and grew in Germany from 128.7 to 175.3. In other words, the U.S. only reached the 1972 German level six years later, while Japan has maintained a commanding lead ahead of everyone.

This lag in productivity is one reason for the growing threat of protectionism. Free trade is a comfortable principle in an era of growth, but it no longer appears expedient in some quarters. This is tragic because it has contributed to world peace as well as to prosperity.

In my opinion, the fact that we in the United States and Western Europe find it necessary to "reindustrialize" is something of a confession of failure. Implicit in the very concept is an admission that we have been remiss in restructuring our basic industries and in pushing forward the frontiers of technology. The Japanese must find the concept quaint, for they have in the last two decades never ceased to do so.

I remain hopeful that we can draw upon our strengths of individualism, pluralism, and innovation to increase productivity and raise the intelligence quotient of our technology. If so, we shall see a revitalization of world trade and a rebuff to the defeatist spirit that is the essence of protectionism.

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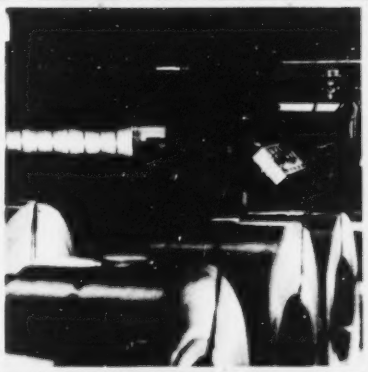
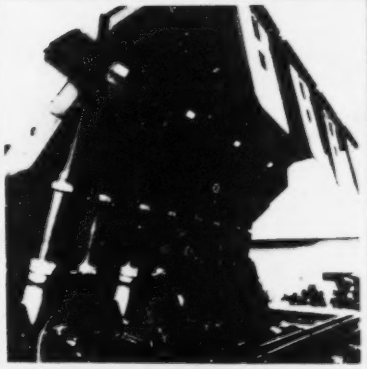


Our Activities



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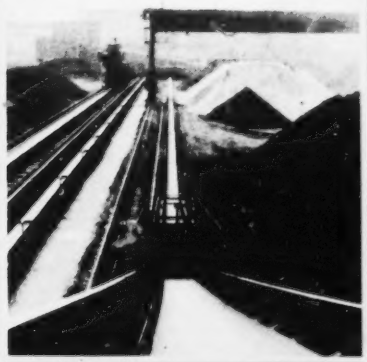

5

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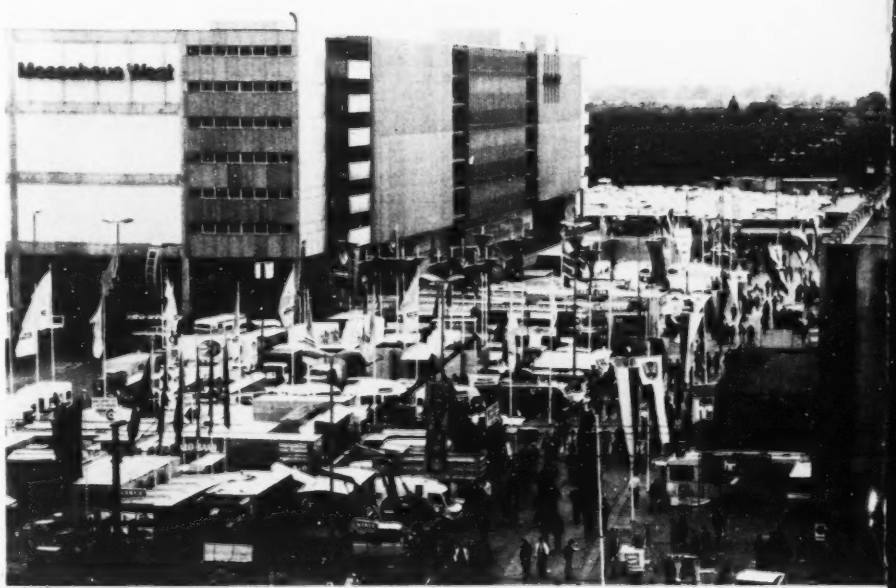
Trade Fairs

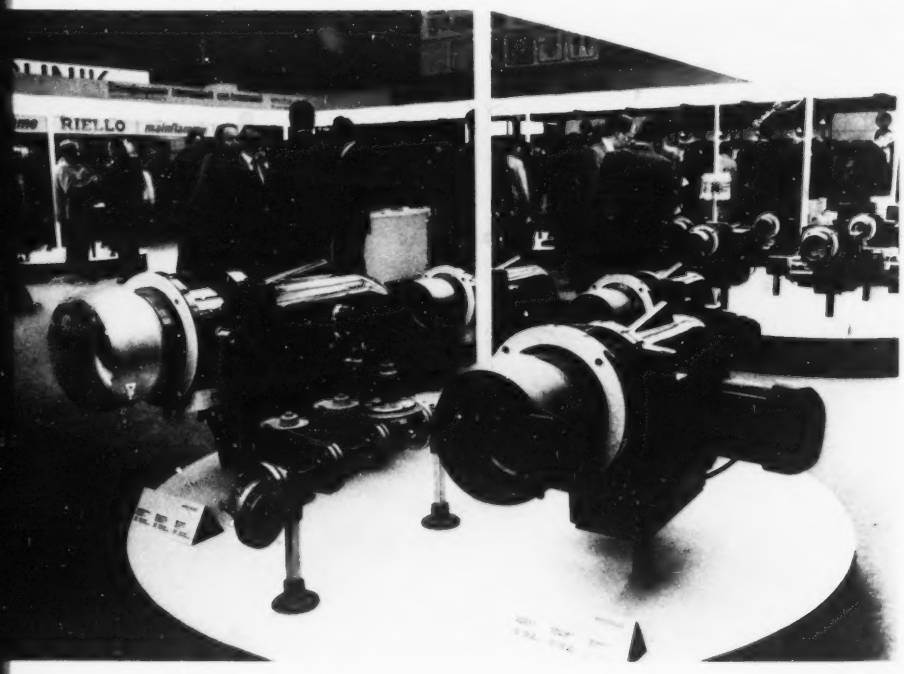
New structural plan

The supervisory board of the Frankfurt Fairs- and Exhibition Corporation has approved a structural plan which, at a cost of over $200 million, calls for a construction and modernizing project that will profoundly change the fair grounds. There is full agreement on the schedule and the financial coverage between the corporate members, the City of Frankfurt and the Land Hessen.

All facilities will be newly fashioned according to organizational and technical requirements of coming decades. The construction schedule takes into account the traditional Frankfurt program calendar and also the trend towards trade fairs. Derived from this schedule is the concept of various independent parts on the fair grounds which will offer full service within themselves for special fairs, without sacrificing the possibility of complete usage of the whole site for large fairs. Medium-term planning calls for the replacement of halls 4 and 5a by modern halls in the style of Messehaus West. Both construction complexes, one in the middle and the other in the western part of the fair grounds, are to offer complete service facilities which in the coming decades will be necessary to stage effective and exacting events. They will also allow for a smooth organization of parallel medium sized events without overlapping each other. All exhibition halls will be connected by weatherproof aisles.

Construction will start in the western part of the fair grounds. Well known European and American architects were aquired for the outside design of the two new exhibition halls and the layout of the fair grounds as a whole.





Interstaff 1980

More than 80% of the 835 exhibitors at the 44th Interstoff in Frankfurt am Main expressed satisfaction with their results - which is more than at the November Fair in 1979. The lively business primarily in samplings for autumn/winter 81/82 and only to a lesser degree in short-term ordering, had already assured a generally positive atmosphere before the Fair actually began. The almost unanimous opinions regarding fashion trends facilitated not only talks during the Fair, but also consolidated expectations of being able to meet consumer wishes with these trends. The fashion branch is convinced that the parallel basic tendencies favoring the "warm, flattering" - to be seen in a literal sense too - and the sporting "active-wear" look, will continue to develop.

93% of the German and 78% of the foreign exhibitors were satisfied with the results they achieved at the Fair as regards the German market; the figures were 88% and 80% respectively as far as the foreign market was concerned. As was already the case at the May Interstoff, the somewhat reduced level of visitors in terms of numbers did not prove detrimental to business activity. The more than 20,000 visitors - the same as in May - came as has been true for the Interstoff for many years, 60 % from abroad, again from more than 70 different countries. Great Britain, France, Italy, The Netherlands, Japan, Switzerland, Belgium, Austria, Spain and the USA occupied the first ten places in visitor statistics - in that order.

International Garden Trade Fair

Exhibitors taking part in the 8th International Garden Trade Fair in Cologne, which closed its doors on Tuesday, September 30, 1980 after lasting three days, described results as satisfactory to good. The bigger demand noted in all segments of the garden market clearly showed that the extreme weather conditions in the early summer of 1980 may have brought a brief break in the industry's upward trend but had not affected it in the long term. This development was supported by many new or improved products presented at the fair for the first time. Business in garden articles is now done throughout the year and prospects for the 1980/81 season were regarded as favorable by the vast majority of the exhibitors. The 287 foreign firms from 23 nations exhibiting at the International Garden Trade Fair this year reported good results. New products were received with interest and had already been ordered on an appreciable scale.

The 8th International Garden Trade Fair was attended by 21,000 buyers, importers and other trade visitors from 48 countries. Of this total 7,100 were non-German trade visitors, accounting for 34% of total attendance. 539 direct exhibitors and another 84 represented firms from 23 nations took part in the fair, including 1 foreign trade organization from the GDR (German Democratic Republic) and 225 direct exhibitors and a further 61 represented firms from countries other than Germany. The fair occupied a gross floor space of 462,680 sq.ft.

The activities of the Cologne Trade Fair Company and the SPOGA Advisory Council linked with the present preparations fo the 23rd SPOGA in 1981 are guided by the satisfactory to very good results noted for the 22nd Cologne SPOGA in 1980. The 23rd Cologne SPOGA is to be held from Saturday, 12th to Tuesday, 15th September 1981. The first SPOGA was held in Cologne in 1960. The overall favorable trend for SPOGA '80, at which 1,684 firms from 41 countries presented their products to 33,000 trade visitors from 84 nations, confirmed the Cologne Trade Fair Company's concept, i.e., no renunciation of the traditional articles on display at SPOGA and a logical extension of the main product groups.

This concept, backed by the highly successful system of seven SPOGA product centers introduced for the first time in 1980, also provides the setting for the 23rd Cologne SPOGA in 1981. Most of the exhibitors in the horse-riding and angling sectors rated the results of the 1980 SPOGA as very good to good. Much the same can be said of business results in the camping and garden furniture segments. Orders and contacts in the water sport sector also ranged from very good to satisfactory, including surfing and skin-diving. A very large number of manufacturers from the sportswear and sports goods sector also reported very good to satisfactory results. The medium sized firms in particular took advantage of the market opportunities offered in Cologne to gain new customers from Germany and other countries. On the whole, the standing of international trade attendance at SPOGA '80 was classed as excellent. The presence of major buyers from home and abroad underlined the international nature of SPOGA as far as the trade is concerned. There was a further growth in exports and many foreign exhibitors were enthusiastic about business with countries other than Germany.

"Supermarket of the Nations"

Even at this stage, a year before the fair opens, there is every indication that the 1981 ANUGA in Cologne from October 10 to 15 will be the biggest event in its more than 50-year history: This applies both to the number of exhibiting firms and to the display area. It is therefore already being referred to in trade circles as the "Supermarket of the Nations". Already 85% of all exhibitors at the 1979 fair have applied for ANUGA '81. There is a very big demand for stand space from foreign countries. This unusually great interest is due to the outstanding position of ANUGA in the world. 4,140 firms from 79 countries took part in the 1979 fair; 137,000 trade visitors from 86 nations were noted. In addition to the larger number of exhibitors at the fair, Cologne offers another improvement for the coming ANUGA: An extension of the hall area by inclusion of the new exhibition hall 10 will make for even better product grouping and give a clear picture of everything on display at the fair. Factors which make the fair so very interesting for all groups of the German and foreign food sector are its trade fair character and clear separation into the three product sectors, ANUGA consuma, gastroma and technica; this is largely responsible for the exhibiting industry's and trade buyers' positive expectations of the fair.

Each of the three U.S. group exhibits, one in the foods, beverages & non-foods category (consuma); one in the technical section for the food processing and packaging industry (technica); and one in the food service industry section (gastroma) for the hotel, motel, fast food, and vending machine industry, will be in a prime location. The minimum exhibit space in each group exhibit is 160 square feet. The cost of this space is $22.00 per square foot and includes booth set-up, space rental, and customized services to suit individual company needs. ■

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At The Chamber

The Chamber and the German Information Center hosted a luncheon on March 11 in honor of the German Minister of Economics, Otto Graf Lambsdorff. Right: Otto Graf Lambsdorff and Helga Steeg, Assistant Secretary, Ministry of Economics.

On the dais in the Grand Ballroom of The Plaza Hotel, left to right: Siegfried Kessler, President, Karl Zeiss, Inc.; Karlfried Nordmann, President (retired), Mercedes-Benz of North America, Inc.; Hartmut Schulze-Bossen, Consul General of the Federal Republic; William Marquard, President and CEO, American Standard, Inc.; Otto Graf Lambsdorff; John Haley, Executive Vice President, Chase Manhattan Bank, N.A.; Helga Steeg, Assistant Secretary, Ministry of Economics; Alexander Ecklentz, Partner, Brown Brothers Harriman & Co.; Guenther Drechsler, President, Thyssen Incorporated; and Martin Witschi, President, J. Henry Schroder Bank Trust Company.

Below, left to right: William Marquard, Werner Walbrol, and the guest of honor, Otto Graf Lambsdorff.

Below, left to right: Hellmuth Klumpp, General Manager for North and Central America, Lufthansa German Airlines and Marcus Prince Clary, General Manager, Administration, Mercedes-Benz of North America, Inc.

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Make	Model	Fixed	Variable	Total
VW	Rabbit D	$2,187	$1,122	$3,309
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dodge	Colt	2,154	1,343	3,496
GM	Corsa J	2,030	1,474	3,504
Ford	Escort	2,068	1,474	3,542
Datsun	210	2,176	1,441	3,617
Mazda	GLC	2,143	1,474	3,617
Toyota	Corolla	2,207	1,507	3,714
Honda	Accord	2,194	1,694	3,888
Subaru	GL	2,103	1,804	3,907
Chevrolet	Citation	1,749	2,236	3,985
Dodge	Aries K	2,258	1,749	4,007
Volvo	240DL	2,170	1,870	4,040
Mercedes	240D	2,885	1,529	4,414
Chevrolet	Malibu	2,601	1,947	4,548

Costs for all models have been computed on the basis of last quarter 1980 projections of cost and performance levels, with fuel at $1.60 per gallon and a retention of 3 years, 60,000 miles.

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Americans no longer are cava[illegible]...out the cost of own[illegible]

Which of this year's small cars will cost the least to own and operate in the years to come?

Obviously, no one knows for sure.

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And when they matched up the figures, none of the others could match the Rabbit Diesel for sheer operating economy.

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A fact which should help suggest the name of your next car.

VOLKSWAGEN DOES IT AGAIN

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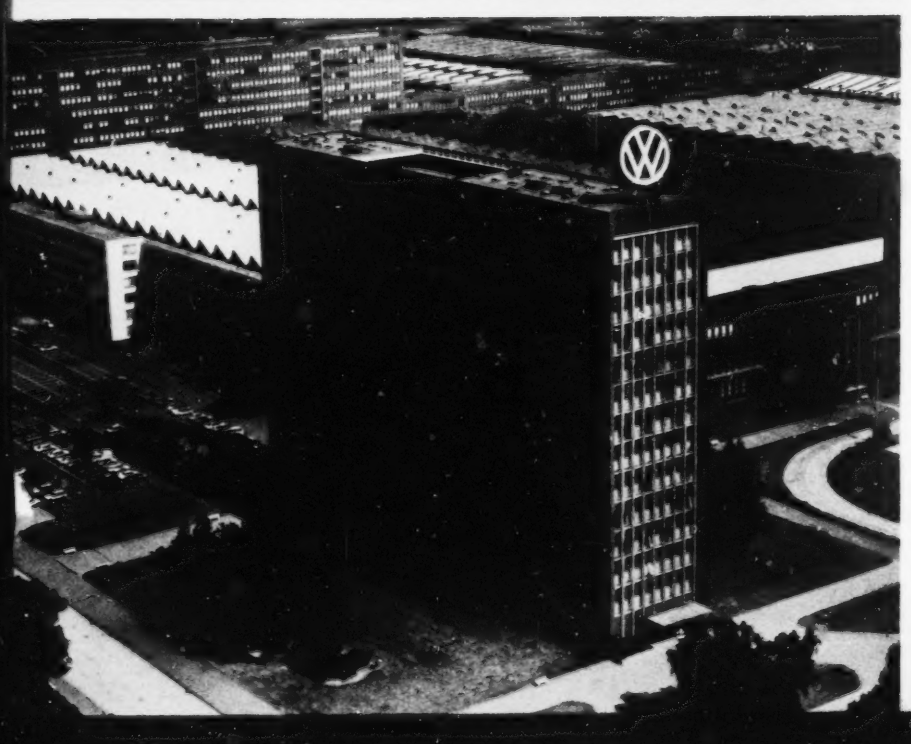
GATN

German Auto Industry in Lower Gear



Last year may prove to have been a watershed for the world automobile industry. In the United States, Chrysler, Ford and General Motors suffered staggering losses, the largest in their history. Japan, on the other hand, passed the U.S. to become the world's largest producer of cars, raising output to 7,038,108 compared with about 6,373,000 in the U.S. The European automotive industry was plagued by significant drops in production, with concomitant layoffs and plant closings, and for the first time experienced the full impact of Japan's car export offensive.

Viewed against this background,

the German industry did not fare badly. In 1980, manufacturers in the Federal Republic produced 3.9 million vehicles of all types, 8.7 percent below the record-breaking level of 1979. Auto output, at 3.52 million, slumped by 10.5 percent. However, the output of commercial vehicles - trucks and buses - leaped by 12.7 percent to 357,481. Exports played a key role in this performance. A total of 210,760 units were shipped abroad, with 41,000 trucks alone going to OPEC countries. Automobile exports, though, reflected the general decline in car production, falling by 6.2 percent to 1,873,494 units, which still represented almost 49 percent of total output.

1980 New Car Registrations in Germany
(Preceding Year in Parenthesis)

1	VW/Audi	736,109	(827,208)
2	Opel	411,076	(483,328)
3	Ford	252,044	(311,921)
4	Daimler-Benz	249,249	(242,848)
5	BMW	138,928	(153,923)
6	Renault	113,995	(130,375)
7	Fiat	87,737	(97,711)
8	Toyota	58,893	(32,506)
9	Nissan/Datsun	51,503	(31,979)
10	Citroen	46,891	(50,655)
11	Toyo Kogyo/Mazda	46,727	(32,398)
12	Honda	43,051	(28,693)
13	Mitsubishi	41,605	(20,725)
14	Talbot	35,436	(44,551)
15	Peugeot	33,328	(41,208)
16	Volvo	17,065	(24,997)
17	Alfa Romeo	14,772	(22,762)
18	Porsche	10,525	(12,001)
19	Leyland	6,712	(11,696)
20	VAZ/Lada	5,982	(10,641)

As measured by new car sales in Germany, only Daimler-Benz registered an increase, 249,249 units versus 242,848 in 1979. In terms of total output, i.e., exports plus domestic sales, Daimler reported an increase in car output of 1.6 percent to 429,000 last year. Although BMW saw its sales in Germany fall from 153,923 in 1979 to 138,928, the Munich-based car manufacturer sold 339,000 autos worldwide last year, a rise of 1.2 percent over 1979. Volkswagen remained Germany's major producer, with 1.2 million units (versus 1.3 million a year earlier); at some distance, VW was trailed by Opel (786,663) and Ford (419,517). Even though its share of the market shrank from 31.5 to 30.3 percent last year, VW's dominance of the German market is assured for some time to come. These lower numbers, incidentally, should not obscure the fact that almost 50 percent of Germany's vehicle output was exported, a figure which approaches Japan's.

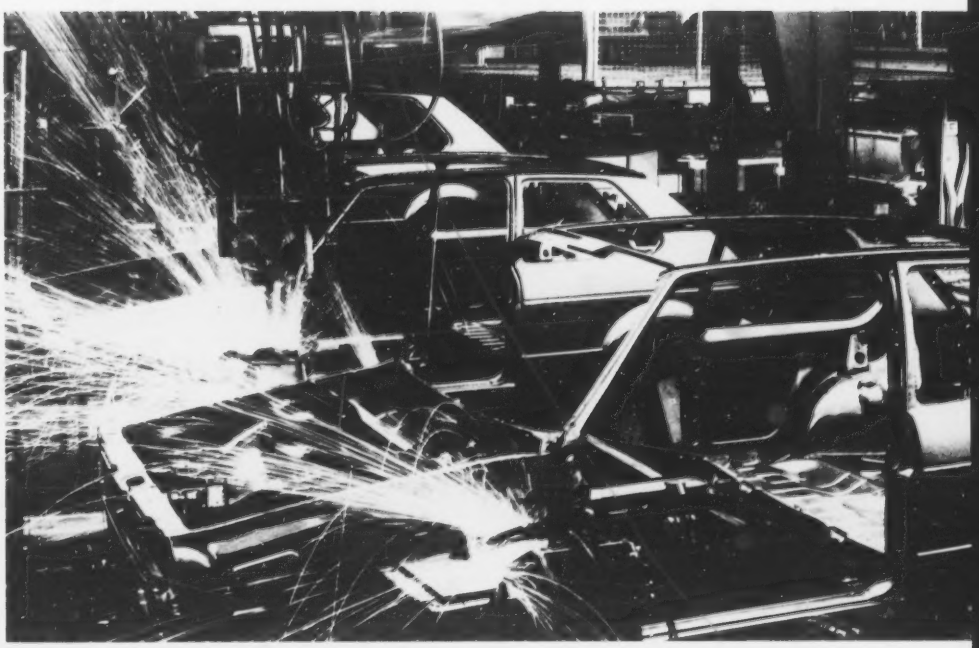
Like their American counterparts, German manufacturers have also began to feel the hot breath of competition from the Japanese, who seized 10.4 percent of the German market last year, compared with a bare 5.7 percent in 1979. Imports from all sources managed to win 26.3 percent of the domestic market in 1980, a pronounced gain over the 23.2 percent they achieved the year before. At first glance, this advance might appear to represent an alarming trend. Not, however, to those who remember the market niche of close to 27 percent carved out by French and Italian imports in the early Seventies.

European problems

A broad structural shakeout is shaping up in the world auto industry. It has become fashionable to ascribe a Japanese origin to shrinking sales and production in Europe. But the possibility that the European market is near the saturation point and the serious energy cost drain on consumer purchasing power suggest that the malaise must be viewed in a more comprehensive context.

Late last year, the European industry was handed a grim report by the *Economic Models Group* of London. In essence, the study predicts that the steady decline in the production and export of cars from Western Europe will continue until at least 1985. The consulting firm says that continuing inroads by Japan and growing overseas production by West German companies will combine to end the European Community's traditional automobile-export surplus in 1982.

Only four years ago, in 1977, the EC exported about 1 million more cars than it imported. By last year the surplus had dwindled to 650,000, and by 1985, the London consultants predict,



the EC will be importing 650,000 more cars than it exports.

The study predicts that car output in the EC member countries will fall an average of 0.15 percent per year from 1980 to 1985, with production expected to dip from an estimated 9.4 million units in 1980 to 8.7 million in 1981. This nadir, according to the analysis, will be followed by a painfully slow recovery to a volume of 9.3 million cars in 1985.

The prospective drop in total European exports will reflect domestic realities, one of these being the serious problems of Britain's auto industry. Another will be the emerging build-up by Volkswagen of its overseas production capacity, above all in the United States. In addition, the report foresees a steady drop in Italy's output and EC market share.

Demand for cars in Western Europe, as reflected in new-car registrations, should climb an average 2.75 percent a year up to 1985, increasing from about 8.5 million last year to just over 9.5 million. In France and Germany, the annual growth rates are expected to come to 4 and 3.69 percent respectively; in Britain the rate of growth will work out to a more modest 2.7 percent, while in Italy demand is projected to fall off by some 2.0 percent between 1980 and 1985.

A major reason for the gloomy outlook in European production and exports is the expectation of increased Japanese penetration of EC markets. For instance, Japanese manufacturers are expected to increase their share of the British market from 10.8 percent in 1979 to 15 percent in 1985. In West Germany, the report predicts, they will take over 17 percent of new sales by 1985. By that time Japan could raise its export surplus to 4.9 million units, a leap of almost two-thirds over 1979's export surplus of 3 million.

German outlook mixed

Both optimists and sceptics will find support for their views in German motor vehicle production in January. Output of cars and commercial vehicles rose 20 percent from the month before, but was down 20 percent from January 1980. Car production, at 275,700 units, increased by 22 percent over December but was down 21 percent from the year earlier period. Of this output, German manufacturers exported 129,500 autos, 21 percent less than last January but about the same as in December. Clearly, these figures don't lend themselves to solid projections of a trend.

These and 1980 statistics notwithstanding, the mood in German automobile circles is anything but pessimistic. The German Automobile Industry Association expects a further but less pronounced drop in 1981 of 2 to 4 percent. At the beginning of the year the Association's president, Horst Backsmann, termed this a "period of normalization" which the German industry was well prepared to confront without critical losses in production, sales and jobs.

None of which is to say that German executives see sunnier skies on the near horizon; on the contrary, they take Japan's rising sun very seriously. In a recent interview in *Automotive News*, VW's Toni Schmuecker confessed to having no illusions: "Times will be tough, very tough, for everybody. And it will be so for quite a while." Schmuecker pointed to the Japanese lead in productivity, which he placed at 20 percent. "Add to this," he said, "since 1965, there has not been a single year in which Japan has not built a brand-new assembly factory, that is, ultra-modern and super-automated. We have a terrible lack of automation. To overcome this handicap, we will have to spend a fortune."

But VW's president also expressed an opinion which is echoed in one form or another by most German auto executives: "The Japanese will not have it as easy in Europe as in the U.S. We are still the leaders in small, sophisticated cars. In this area, European technology is up to the task."

While many American manufactur-

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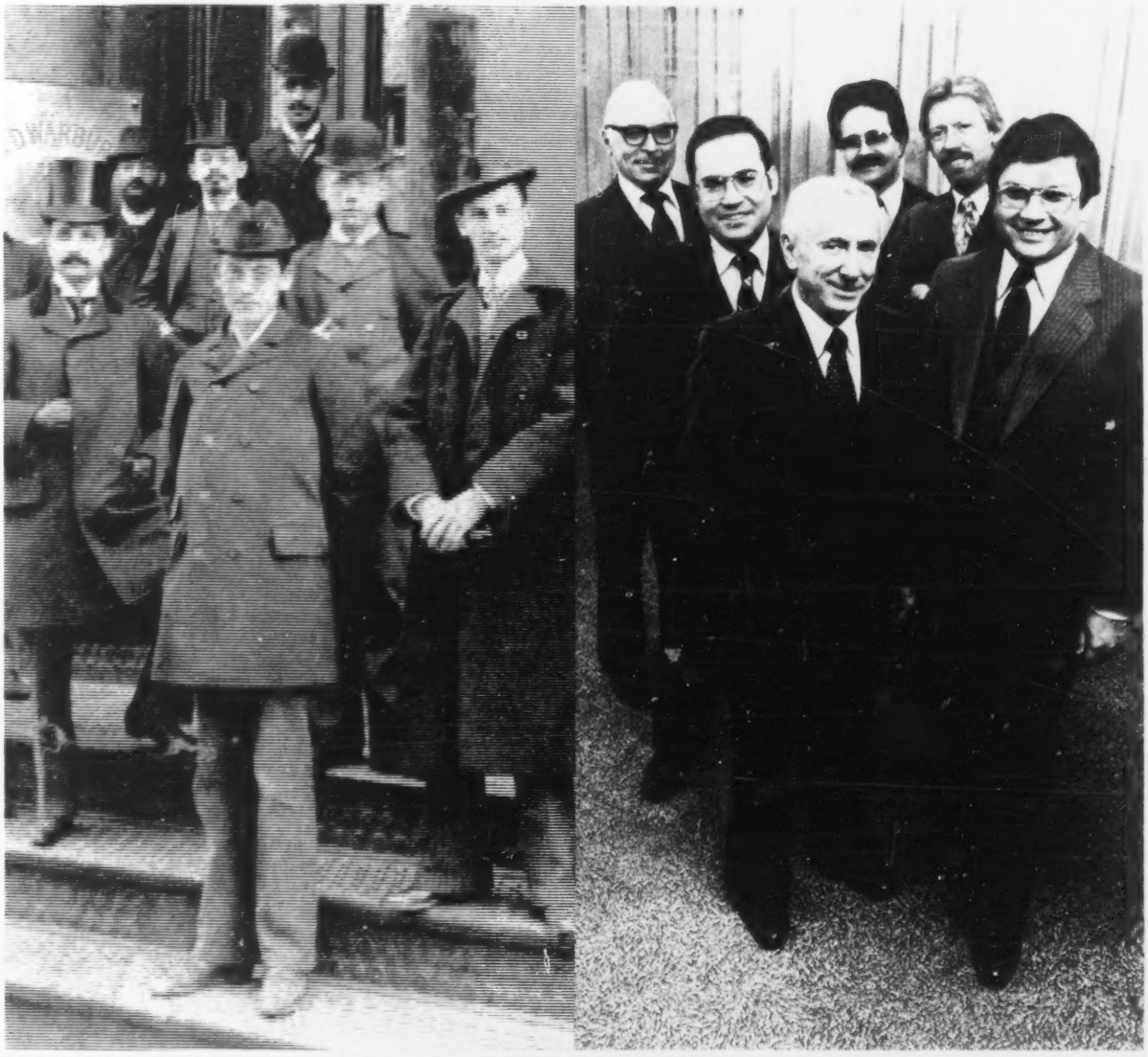

Wholesale Credit Group (pictured at right, from right to left). **Albert Camhi**, Vice President, Director, Wholesale Credit Manager. **Roy V. DeMillio**, Division Head, Export. **Harold I. Dundish**, Assistant Vice President, Division Head, Yarns and Converters. **Nicholas Villios**, Assistant Vice President, Division Head, Women's Apparel. **Nicholas Soccodato**, Assistant Vice President, Division Head, Woolens, Cottons and Outerwear. **Herbert D. Hauser**, Assistant Vice President, Division Head, General Products.

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German-American Economic Review in Figures

	Federal Republic of Germany					United States				
	1979	1980	1980			1979	1980	1980		
			Oct.	Nov.	Dec.			Oct.	Nov.	Dec.
FOREIGN TRADE (in mil.$)										
Imports	159,646	187,933	16,484	14,808	14,833	207,077	241,461	20,038	19,436	21,163
Exports	171,801	192,901	17,394	15,004	15,345	181,646	220,623	19,089	18,634	19,118
Balance on merchandise trade	12,158	4,968	910	196	512	−25,431	−20,838	−949	−802	−2,045
U.S.-GERMAN TRADE (in mil.$)										
U.S. imports from Germany	11,337	11,821	1,014	870	1,011	10,955	11,681	862	876	896
(+)(−) % from previous year	12.9	4.3	−4.2	−19.7	−1.5	10.0	6.6	7.3	−13.8	−16.3
U.S. exports to Germany	11,081	14,161	1,186	1,075	1,117	8,272	10,732	852	878	810
(+)(−) % from previous year	27.0	27.8	5.7	−5.5	9.3	21.4	29.7	4.8	11.0	−1.2
Balance on U.S.-German trade	256	−2,340	−172	−205	−106	−2,683	−949	−10	2	−86
INDUSTRIAL PRODUCTION										
(+)(−) % from previous year	5.4	−0.2	−2.7	−2.5	−9.5	4.4	−3.5	−3.8	−1.9	−1.1
Iron and steel	9.0	−3.3	−6.4	−2.1	−8.6	0.0	−18.9	−14.2	−0.8	−1.8
Machines, exc. elec.	4.8	3.4	1.2	0.3	−15.0	6.5	−0.7	−1.1	−0.3	1.3
Electrical machinery and equipment	1.1	3.2	−0.7	2.2	−6.0	9.8	−1.3	−4.1	−3.5	−3.5
Chemicals	6.7	−4.0	−8.2	−5.0	−6.8	6.6	−2.4	−1.8	−1.5	−0.2
Road motor vehicles	7.5	−4.6	−5.1	−9.8	−15.6	−5.8	−25.7	−17.3	−7.4	−7.6
Textiles	3.8	−0.9	−7.2	−5.9	−9.7	4.6	—	−9.4	−9.1	−9.5
Apparel	−0.1	−5.1	−8.7	−4.2	−10.8	−2.6	−4.0	−3.0	−2.7	—
LABOR MARKET										
Population (in mil.)	61.4	61.5	—	—	—	220.6	222.6	223.4	—	—
Civilian labor force (in 1000)	25,548	25,792	—	—	—	102,908	104,719	105,167	105,285	105,067
Unemployed (in 1000)	876	889	888	968	1,118	5,943	7,448	7,482	7,486	7,233
Unemployment rate (in %)	3.8	3.8	3.8	4.2	4.8	5.8	7.1	7.6	7.5	7.4
Gross hourly wages in manufacturing (in DM or $)	12.55	13.41	13.63	—	—	6.69	7.27	7.49	7.58	7.63
(+)(−) % from previous year	5.6	6.9	7.5	—	—	8.4	10.9	9.8	10.3	10.4
PRICES (+)(−) % from previous year										
Consumer Price Index	4.1	5.5	5.1	5.3	5.5	11.3	11.4	12.6	12.6	12.4
Producer prices for ind. products	4.8	7.5	7.0	7.4	7.4	12.9	16.1	12.9	12.8	13.0
CURRENCY EXCHANGE RATES (avg.)										
Value of $1.00 in DM	1.8330	1.8158	1.8407	1.9201	1.9727					
Value of DM 1.00 in $						0.5456	0.5509	0.5428	0.5211	0.5077

	1979	1980	1980				1979	1980	1980			
			I	II	III	IV			I	II	III	IV
NATIONAL ACCOUNTS												
Gross National Product at current prices (in bil. DM or $)	1,404	1,501	1,484	1,492	1,515	—	2,414	2,626	2,572	2,565	2,637	2,731
(+)(−) % from previous year, real terms	4.5	1.8	5.8	1.5	0.7	—	3.2	−0.1	1.5	−0.7	−1.1	−0.3
Balance on current account (in mil. DM or $)	−10,142	−28,146	−5,624	−6,615	−12,244	−3,662	−705	118	−2,621	−2,441	4,493	687
Monetary reserves (in mil. $)	60,455	53,141	53,351	57,241	56,717	53,141	18,950	26,760	21,450	21,920	23,000	26,760
Direct investment, cumulative at period end (in mil. DM or $)												
Direct investment abroad	66,002	74,162	—	70,816	—	74,162	192,648	—	—	—	—	—
—German investment in the U.S.	12,283	15,664	—	14,487	—	15,664						
—U.S. investment in Germany							13,530	—	—	—	—	—
Foreign direct investment	55,242	57,616	—	—	—	57,616	52,260	—	—	—	—	—
—U.S. investment in Germany	20,140	20,312	—	—	—	20,312						
—German investment in the U.S.							5,004	—	—	—	—	—

Sources: Statistisches Bundesamt; Deutsche Bundesbank; Bundesministerium fuer Wirtschaft; International Monetary Fund; U.S. Department of Commerce; U.S. Department of Labor; Federal Reserve System

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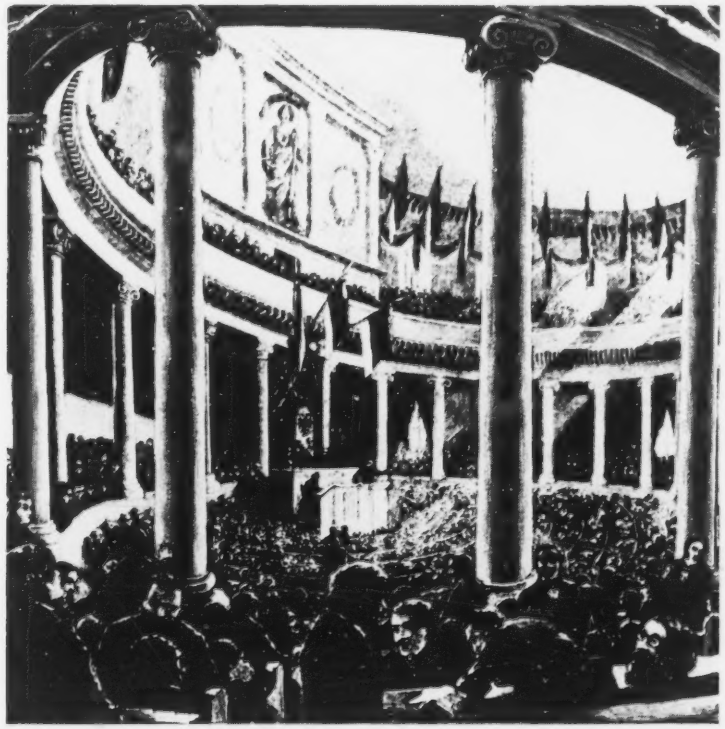

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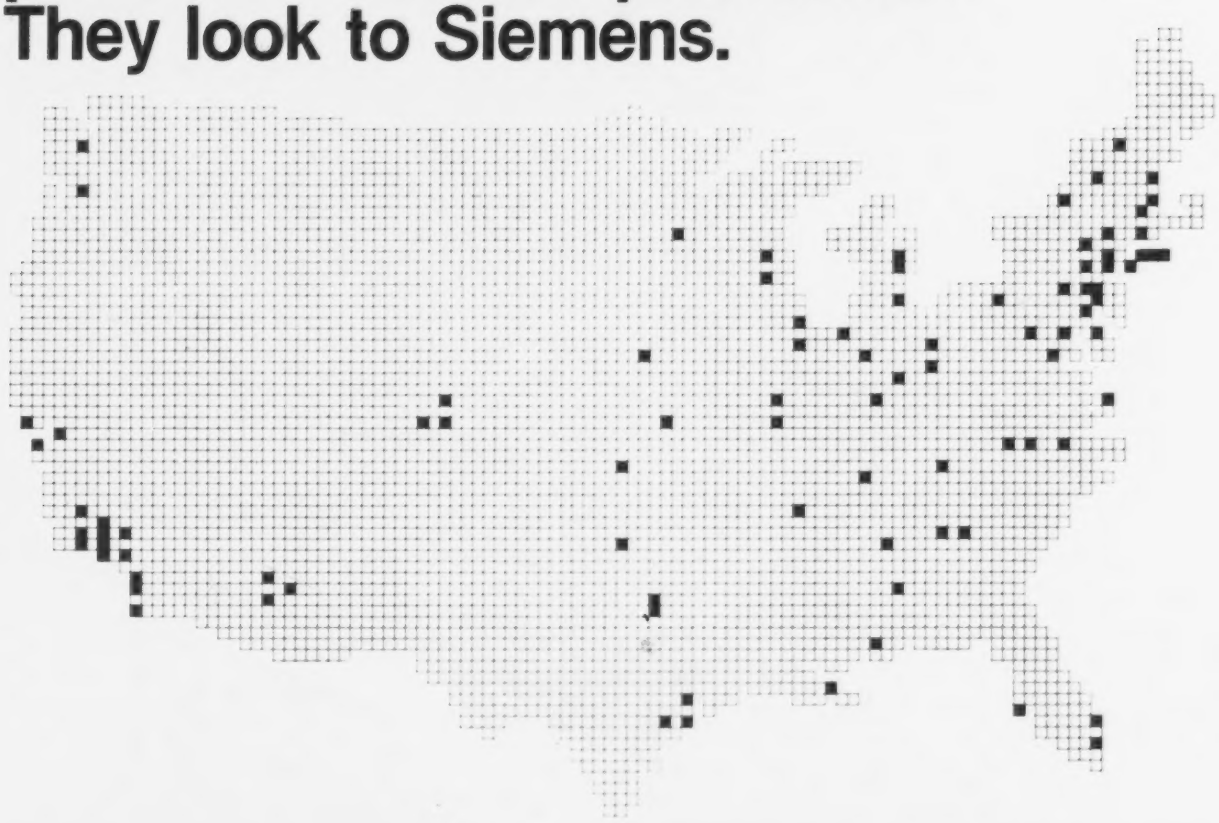

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New Income Tax Regulations May Convert Debt to Equity

by Henry S. Conston, Richard E. Schneyer, and Edward Tanenbaum

The Internal Revenue Service has recently adopted final regulations relating to the classification of shareholder loans as debt or equity. These regulations apply to debt instruments issued after April 30, 1981. If, however, the terms of an instrument issued before May 1, 1981 are substantially changed after April 30, 1981, the regulations also will apply to such instruments which will be treated as if they were newly created.

This article summarizes these complex provisions and highlights the impact of the regulations in the context of corporate-creditor relationships. An understanding of the regulations is significant because of the underlying differences between debt and equity instruments.

If an instrument is treated as debt for tax purposes, interest paid or accrued on the debt by a corporate debtor is deductible by it for United States income tax purposes and the repayment of principal to the creditor is tax-free. Under the tax treaty with Germany, interest payable to a German creditor is generally exempt from United States withholding tax.

However, if a debt instrument is treated as equity, payments by the debtor corporation will be treated as dividends which would not be deductible by it. Moreover, dividends paid by a United States subsidiary to its German parent are generally subject to 15% United States withholding tax.

Accordingly, it is important that corporate instruments issued after April 30, 1981 intended to be structured as debt comply with the new regulations. The rules may vary depending on the type of instrument issued, the nature of the debt, the nature of the creditor and the relationship between the holdings of stock and debt.

Instruments covered

The regulations apply to instruments such as bonds, notes, debentures or other written evidences of indebtedness, as well as most obligations, such as cash advances, which are not evidenced by a writing.

Nature of debt instrument

The regulations distinguish between "straight debt" instruments and hybrid instruments.

Hybrid instruments are instruments convertible into stock or instruments that provide for contingent payments to the holder of the instrument, e.g., income or participating bonds.

Proportionate holdings

The regulations have their greatest impact on debt instruments held by shareholder-creditors substantially in proportion to equity holdings.

Substantial proportionality is determined from all relevant facts and circumstances, including attribution from family members, partnerships, estates, trusts and corporations. For example, if a sole shareholder holds a debt instrument issued to him by his corporation, the holding of the stock and such debt will be considered proportionate. The holdings of the stock and the debt also would be substantially proportionate if such shareholder's related entity held the debt.

Straight debt instruments

Straight debt instruments issued proportionately to shareholders will be classified as stock in the following instances:

a. *Excessive debt*

If the instrument's terms and conditions would not be satisfactory to a bank or lending institution in the business of making commercial loans, taking into consideration the corporation's financial structure, the corporation will be treated as having excessive debt and the instrument will be classified as stock.

For this purpose, the corporation's size, industry, geographic location and financial condition must be taken into account.

However, a safe harbor exception applies. A corporation will not be deemed to have excessive debt if its "outside" debt to equity ratio is not greater than 10:1 *and* its "inside" debt to equity ratio is not greater than 3:1. Both ratios are determined at the end of the taxable year in which the instrument is issued or the indebtedness is incurred.

Generally, the "outside" debt to equity ratio is measured by the proportion of a corporation's total liabilities, both to shareholders and independent creditors, (except trade accounts payable and accrued operating expenses and taxes) to "shareholder's equity".

The "inside" debt to equity ratio is computed in the same manner except that liabilities to independent creditors are excluded (except in computing "shareholder's equity").

For example, assume a corporation

Henry S. Conston, Richard E. Schneyer, and Edward Tanenbaum are associated with the Chamber member law firm of Walter, Conston, Schurtman & Gumpel, P.C., New York.

has assets with an adjusted basis of $200,000 and total liabilities of $150,000 (representing shareholder liabilities of $50,000, independent creditor liabilities of $50,000 and trade accounts payable of $50,000). The "shareholder's equity" is $50,000 ($200,000 less $150,000). In this example, the corporation's "outside" debt to equity ratio is 2:1 ($100,000:$50,000), and its "inside" debt to equity ratio is 1:1 ($50,000:$50,000).

b. *Reasonable Interest Rate*

The following types of instruments issued substantially in proportion to shareholdings will be classified as stock even if the aforementioned debt to equity ratios are met unless the stated annual interest rate is reasonable.

Interest will be considered reasonable if it is within the normal range of rates paid to independent creditors on similar instruments by corporations of the same general size and in the same industry, geographic location and financial condition.

The types of instruments which are subject to the additional reasonableness of interest requirement are:

(i) Instruments issued in exchange for property and not for money. Included in this classification are instruments issued in exchange for other debt instruments:

(ii) Instruments which are payable on demand.

c. *Reclassification of Instrument*

Even if an instrument is originally treated as debt when issued, it may be reclassified as stock in the following instances:

(i) Change in terms. If there is an agreement to postpone the maturity date of an instrument or otherwise to make a substantial change in the terms of an instrument (materially affecting the fair market value of an instrument, e.g., subordination, change in interest rate), the instrument will be considered newly issued as of the date of the agreement. In that event, the instrument will be reclassified as stock unless it meets the requirements of the regulations as of the date of which it is deemed to have been reissued.

(ii) Nonpayment of interest. If a corporation fails to pay all or part of the interest due and payable during the taxable year and the owner of the instrument fails to exercise the ordinary diligence of an independent creditor, the instrument will be treated as stock beginning on the later of the first day of the year during which the failure to pay occurs or the first day on which the debt instrument is determined to be substantially in proportion to equity holdings. For this purpose, a corporation is treated as having failed to pay interest if the interest is not actually paid within 90 days after the end of the year.

(iii) Nonpayment of principal. If a principal payment is not made within 90 days after the payment is due and the holder of the instrument fails to exercise the ordinary diligence of an independent creditor, the instrument is treated as one payable on demand. As such, if the corporation fails to pay a reasonable interest rate, the instrument will be considered as stock.

d. *General safe harbor*

A general safe harbor rule is provided for all straight debt instruments if all of the following conditions are met:

(i) The instrument provides for a fixed maturity date; (ii) the instrument provides for annual payments of interest at either (a) the rate established as interest under the Internal Revenue Code for deficiencies and refunds (currently at 12%), (b) the prime rate at any local commercial bank, (c) a rate determined by the Treasury taking into consideration the average yield on outstanding marketable obligations of the United States of comparable maturity, or (d) any rate in between; (iii) the corporation's debt to equity ratio does not exceed 1:1; and (iv) all principal and interest are paid when due.

Accordingly, if this safe harbor rule is met, (i) the instrument will be treated as debt when issued, (ii) no adjustment of interest will be made to reflect original issue discount or bond premium (see below), and (iii) the instrument will not subsequently be reclassified as stock.

Interest rate adjustments

Even if debt instruments are recognized as valid debt (and are not recharacterized under the above described provisions), interest rates may be adjusted if instruments issued to shareholders do not carry a reasonable rate of interest. For example, if an agreed upon interest rate is too low, the regulations will impute arm's-length interest in the form of original issue discount income to the shareholder followed by a contribution to capital. The corporation would then be entitled to additional interest deductions. If, however, the agreed upon interest rate is too high, the regulations will impute a dividend distribution to the shareholder and the corporation will be required to include bond premium in income in a corresponding amount.

Hybrid instruments

a. *Issued proportionately*

Hybrid instruments, e.g., income bonds or convertible debentures, issued proportionately to shareholders will always be treated as stock (regardless of whether there is excessive debt, etc.)

b. *Not issued proportionately*

Hybrid instruments not issued proportionately to shareholders are treated as stock if the value of their equity features (i.e., convertibility) exceeds 50% of the total value of the instruments. Otherwise, they are treated in the same manner as straight debt instruments, in which case they are ordinarily treated as debt.

Equity features include the right to convert the instrument into stock and the right to contingent payments such as in the case of income debentures.

Guaranteed loans

If a shareholder guarantees a loan made to the corporation by a bank or other lender, the loan may, under certain circumstances, be treated as having been made to the shareholder. In that event, the shareholder is treated as making a contribution to the capital of the corporation. This rule applies to direct guarantees and indirect guarantees where, for instance, the parent pledges collateral for the benefit of the subsidiary.

As a result, payments by the corporation of interest and principal on the loan are treated as dividend dis-

[1] For example, a shareholder transfers $1,000,000 to his wholly owned corporation in exchange for $200,000 of stock and $800,000 of debt, and the corporation borrows $200,000 from a bank. If the maximum amount that a bank would lend is one to one and a half times the shareholder's equity ($200,000 to $300,000), the corporation would have excessive debt as a result of the $800,000 debt issued to the shareholder.

tributions by the corporation to the shareholder to the extent of corporate earnings and profits. As such, the corporation will not be entitled to a deduction for interest paid, although the shareholder will be allowed a deduction in the corresponding amount.

Valuation of instruments

The regulations provide rules with respect to the issuance of instruments by a corporation to shareholders for more or less than the instrument's fair market value.

The fair market value of an instrument is the price at which it would change hands between willing buyers and sellers, neither being under any compulsion to buy or to sell and both having reasonable knowledge of all the relevant facts. However, if the stated annual interest rate is reasonable and the consideration paid for the instrument is equal to the face amount of the instrument, the fair market value of a straight debt instrument is considered to be equal to the face amount.

If a corporation issues an instrument to a shareholder (whether it is treated as stock or debt), the excess of the consideration paid over the fair market value of the instrument, is a contribution by the shareholder to the capital of the corporation.

If a corporation issues an instrument to a shareholder and the instrument is treated as *debt*, any excess fair market value of the instrument over the consideration paid is treated as a dividend distribution to the extent of corporate earnings and profits. If however, the instrument is treated as *stock*, such excess is treated as a stock dividend.

The foregoing summary of the regulations should provide some guidelines for purposes of structuring loans and indebtedness issued or created after April 30, 1981.

Shareholder loans which exist presently, and which are not evidenced by a written instrument such as a promissory note or loan agreement will not fall under the new rules if they are documented prior to May 1, 1981.

With respect to indebtedness issued or created after April 30, 1981, it is recommended that the following points be considered and/or documented in connection with proportionately issued instruments:

A. The "inside" (3:1) and "outside" (10:1) debt to equity ratio requirements should be observed. Because the status of debt is determined on the basis of such ratios at year end, the balance sheet at that date is particularly relevant.

B. Practices of local lending institutions in connection with extensions of loans, must be observed in connection with fair market value and excessive debt and interest rate requirements. If possible, the borrower should secure and retain evidence of terms under which banks are willing to extend loans.

C. All shareholder debt for terms of six months or more, including shareholder trade receivables, should be evidenced by a writing.

D. An instrument's terms, including interest rates, should be arm's-length, taking into consideration commercial practices.

E. Payments of principal and interest should be made when due. ■

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[2] This may be the case upon a finding that the corporation has inadequate assets, is not viably independent as a corporate entity, and that creditors would not have extended a loan to the corporation without the aid of a guarantee by its shareholders.

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1980: A Good Year for the Cologne Fairs

Dieter Ebert

Opening 1981 with the German Furniture Fair, Cologne's year of fairs got off to a good start. Altogether, there will be 24 events, the most comprehensive program yet offered. It follows a 1980 calender that I consider the most successful in the annals of our company, which organizes the events. Despite the overall economic conditions, the Cologne fairs demonstrated their worth in 1980 when once again many exhibitors achieved results exceeding their expectations. It proves that fairs still fulfill their market function, even in difficult times.

Last year 17 trade fairs and exhibitions were conducted on Cologne's fairgrounds. They offered the products and services of altogether 14,000 companies from 71 countries to meet the needs of more than 820,000 buyers and other businessmen from 127 countries. The number of exhibitors as well as the amount of exhibition space leased was again higher than on prior occasions. The major gain in exhibitors was attributable to foreign participation, which rose an average of 6% per fair. The number of domestic exhibitors averaged 2% more. The exhibition space was 9% greater on average. Similarly, the gain in attendance rose above prior fairs by an average of 10% for foreigners and 9% for Germans.

The international representation, too, continued to gain. There were 49% more foreign exhibitors and 30% more visitors from abroad. Noteworthy was the participation of countries heretofore not represented as exhibitors at the respective Cologne fairs. This influx came exclusively from Third World countries, for instance Korea, Sri Lanka and Uruguay. Altogether, the exhibits conducted at our fair facilities took 1.6 million square meter of space.

U.S. business was represented at the Cologne fairs with about 600 enterprises last year. As a group, they were the fourth largest contingent among foreign exhibitors. Within the last two years the number of U.S. exhibitors has increased by nearly 50%. The U.S. ranked 14th in terms of visitors, with about 3,000 buyers and other executives attending.

The revenues of the Cologne Trade Fair and Exhibition Company totaled $56 million in 1980, compared to $49 million a year earlier. The gain amounts to 13.5%. Revenues per employee rose from $146,300 to 1979 compared to $161,700 in 1980 and per square meter from $243 to $264. Even though earnings of the Cologne Exhibition Company did not keep pace with revenues, we will again be in the black for 1980. The good utilization of our exhibition halls, whose space was turned over eight times, contributed significantly to our positive result.

In 1980 additional modernization

Dieter Ebert is Executive Director of the Cologne Trade Fair and Exposition Corporation.

projects continued to keep our facilities up-to-date. The new No. 10 exhibition hall replaced outmoded space. Its size increases our total exhibition space by 7,500 square meters to 212,000 sq.m. Furthermore, two new parking floors provided space for 1,000 additional cars.

At the same time the new Rheinhallen entrance halls have been rebuilt. Modernization projects were also completed in other halls. Including Hall 10 which, together with auxiliary facilities, represented an expenditure of $40.5 million, our investments in the past seven years total about $129 million. We succeeded in these undertakings on our own without public funds or subsidies. We pay depreciation and the interest due on our investments out of earnings.

Our network of representatives in foreign countries continued to be expanded last year. Since early 1980 our representative office in Jordan has also extended its service to Iraq, Saudi Arabia, Yemen, Kuwait, Qatar, Lebanon, Oman, Syria and the United Arab Emirates. We have pursued this expansion with a view to the rising purchasing power of the oil exporting countries and to service the other Arabic nations in the Near and Middle East. In the fall of 1980 we opened a new representation in Austrialia and New Zealand. As a result, the foreign service offices of the Cologne Exhibition Company now operate in 59 countries with 67 representatives and information centers.

In the past 10 years, the Cologne Exhibition Company has conceived and launched 17 new fairs. We have continually tailored the expansion of our fair program to the development of markets. To this end these adjustments will continue to be made by the Cologne Exhibition Company in the future.

As mentioned earlier, our program this year features 24 events. Novel among these are the 6th European Microfilm Congress; the TELECOM 81, the congress of organized business telecommunications combined with a trade show; plus the Peoples' Republic of China Trade Exhibition which was held for the first time on the Cologne fairgrounds in 1975. Based on applications received to date, the number of exhibitors and the demand for space will be greater in 1981 than heretofore. We anticipate also an increase in international representation. All in all we expect some 60,000 exhibitors from 90 nations and 700,000 visitors from all over the world at our fairs this year. The congresses, meetings and special events already booked for this year promise a high degree of utilization of our grounds and Congress Center, also at times when no fairs are scheduled.

This year, too, we intend to expand the activities of the Cologne Exhibition Company with a significant new service. In past decades our company and its representatives abroad have maintained and intensified their close contacts to business and administrations in a large number of countries on all continents. We want to provide German industry participating in fairs abroad both of these channels of access to foreign markets. We know that many sectors of business seek to increase exports by participation at such fairs abroad that address either the national economy of the country or a group of countries.

This expansion of our activities supplements sensibly the effectiveness of our marketing service. The efficiency of this service has contributed significantly to the aforementioned internationalization of Cologne fair exhibitors and visitors. Therefore we will form a company with a majority participation on our part. I expect that the new company will be organized by mid-year and that it will beome operative before the end of the year.

In spite of the lagging economic pace, Cologne has continued to make progress as an exhibition and congress center. That holds true both for its many events as well as the company. We consider it proof of the fact that exhibitors and visitors value Cologne's world markets, its orientation to well-defined market sectors, its numerous customer-oriented services and facilities and the constant improvement of the infrastructure of its grounds. Overall it assures our exhibitors and visitors a further improvement in the cost/benefit factor of their participation. We will continue to expand the vertical scope of the events, to adjust to changes in the market and to develop new events only in cooperation with business if a necessity is evident.

The intensification of competition among fairs corresponds to developments in all other sectors of the economy. We in Cologne support the principle of free enterprise and thereby also healthy competition for the benefit of suppliers and consumers. At the same time we continue to believe that competition among fairs does not exclude cooperation any more than it does in any other sector of the economy.

In their role as a medium for dispensing up-to-date, dependable and specific information fairs will harbor even greater significance in the future. Even today the dissemination of information represents an important component of the service of fairs. As a result, it is likely that there will be more or bigger congresses held either in connection with fairs or independently. In the Eighties, fairs will have to become even more communications oriented. More attention will therefore have to be paid to information dissemination, contact development and preparation for business transactions as a prerequisite for doing business. Furthermore, the availability of information will gain added importance in making business planning decisions. The information pertaining to specific branches of business will be supplemented by information provided to cover a wider sphere of business. That applies increasingly as well to cooperation within a national and supranational framework.

The Cologne Exhibition Company looks back on 1980 with great satisfaction and looks forward with confidence to its future challenges. ■

Licences and Investments

Packaging and wrapping machinery for the use of polyvinyl chloride and polyethylene foils in industry and trade. The German firm claims to have a particularly good reputation in the line of energy-saving automated machines for shrinking and extending plastic foils. Franz-Josef Meurer. Meurer—Verpackungsmaschinen. Von-Tambach-Str. 3-5. 4557 Fuerstenau.

Seeks a licensing and/or joint venture agreement for the production of **furniture, tables and chairs.** Established in 1810 and has 35 employees. Peter Schimmel. Benze Collection Sitz-moebelfabrik. Hohlengrund 10. 32552 Muender 1: telephone: 05042-8611: telex: 92 4428.

Seeks licensing arrangement for the production of **textile machinery and auxiliary equipment.** Firm was established in 1948 and has 80 employees. Mr. Benz, Sales and Export Manager. Croon & Lucke Maschinenfabrik GmbH & Co. KG. Julius Hoelder-Str. 14, D-7000 Stuttgart 70 (Degerloch): telephone: 0011-49-711-722087: telex: 7 255 654.

Interested in manufacturing under license **instruments and components** that are **newly developed in the environmental protection and energy-saving fields.** Firm is a manufacturer of precision instruments and electronic components for the automotive industry. Employs 50. Herr Hermann. C.J. Wehrle & Sohn Praezisionsmechanik und Autoelektrik. Ottenstrasse 2, Postfach 1107. D-78155 Kirchzarten; telephone: 0011-49-7661-931: telex: 7 722 727 WEKI. WTDR

Seeks licensing arrangement to manufacture **energy-saving controls and regulators.** Company is a manufacturer of controlling and regulating devices used in heating, cooling and airconditioning. Employs 15 with 12 traveling salesmen. Michael Hoffmann. ACI Klimaservice GmbH & Co. KG. Liebigstrasse 5, D-7800 Freiburg: telephone: 0044-49-761-508516:telex: 7 721 405. WTDR.

Manufacturer of pipes and accessories for sprinkler irrigation and ground water level control systems is seeking exchange of production licenses and technical know-how for **couplings and similar equipment.** Established in 1974 as a subsidiary of a Swiss firm which produces the same type of pipes and accessories for water systems. Company has 50 employees. Rudolf U. Aus der Au or Robert Emch. Intertube GmbH Roehrenfabrik. Industriezone. D-7891 Dogern: telephone: 0011-49-7751-2106: telex: 792219.

Interested in discussing with American companies the possibility of an exchange of licenses, know-how, and technology. An engineering company which became involved in R & D work for industry has developed new **machinery and equipment, both mechanical and electronic, for rationalization of production processes.** The firm would also be interested in **assisting American companies in adjusting their computer and electronic equipment to European standards** in order to open the export market for them. Also interested in **small computer-systems with small software packages.** Company employs seven engineers. Prof. Dip.-Ing. Georg Seewang. Gesellschaft fuer Rationalisierung und Rechentechnik GmbH. Bregstrasse 7. D-7741 Foehrenbach: telephone: 0011-49-7727-7034: telex: 792 847.

Seeks cooperation agreement for the manufacture of **pipe bending machines.** Firm has 60 employees and enjoys fine reputation. Erhard Jost. Hermann Klaeger Maschinenfabrik GmbH. Dietbachstrasse 28. Postfach 329. D-7000 Stuttgart 60: telephone: 0011-49-711-337555: telex: 7 253 514. WTDR.

Manufacturer and distributor of industrial machinery, especially for the production of plastics, seeks a licensing arrangement to produce **heat pumps and solar equipment.** Established in 1940, has 240 employees. Fred Handke, Managing Director, Sauerland Kunststoffe Export-Import KG. Lange Gasse 47, D-5982 Neuenrade: telephone: 2392-62302.

A wholesaler of car accessories and manufacturer of repair/spare parts is seeking to establish contacts with U.S. wholesalers and rebuilders of automobile electrical parts for electric generators and starter motors of international car brands. Company seeks licenses for the **rebuilding of original electrical automobile spare parts.** The German company rebuilds Bosch electrical spare parts in Germany and has an exclusive representation agreement including customer services and rebuilding service with a major U.S. firm. Established in 1952 and has 42 employees. Horst Holtrup. Manager. C/O A. Venzke. Spezialwerk fuer KFZ-Ausruestung. Zur Landwehr 25, 4400 Muenster: telephone: 251-717081: telex: 892580.

Gear manufacturer is interested in a cooperative exchange of technical know-how and possibly a financial partnership with a large U.S. firm. The company is very specialized in its production and has among its customers the car manufacturer Porsche and the German army. It does not engage in large series production, but rather in very specialized parts which include gear parts up to two meters in diameter. Established in 1864, has a staff of 25. Werner Pieper, Pieper Maschinenbau

GmbH. P.O. Box 1336. D-7880 Bad Saeckingen 11 (Bad Saeckingen-Wallbach): telephone: 001-49-7761-2395: telex: 792315.

Interested in a cooperation arrangement or a joint venture to manufacture similar **textile products** of the company's and/or **protective clothing** along the lines of an exchange of production licenses and the distribution of one another's products. Firm is a manufacturer of Angora health underwear, Angora body warmers and Angora sports underwear. Company was established in 1952 and employs 980, plus 60 travelling salesmen and 8 representatives. Hans Saettle, Vice President. Medima-Werke. Karl Scheurer KG. Hoellsteiner Strasse. P.O. Box 40. D-7867 Maulburg; telephone: 0044-49-7622-3931: telex:0773 228. WTDR. P-84022. A limited supply of the company's brochures are available from Investment Advisory Staff. Office of Export Marketing Assistance. Room 4036. U.S. Department of Commerce. Washington, D.C. 20230.

Investment

Wood drying kilns. Company wants to establish in northeast U.S., especially around Albany, and expects to employ 10-15 Americans. Alfred Opelling. (Grad. Opel Holrimpoh GmbH. Nentlenweg 9, D-7441 Unterensingen.

Machinery for production of plastic and aluminum windows. Company wants to purchase and or lease production facilities of about 3,000 square feet, and may consider building new plant to employ 15-20 persons, including machine tool makers and mechanics. The company will send specialists from Germany for the start-up period and is prepared to train U.S. employees. Geographically, preference is given to Florida, Georgia and Texas, but other locations will be discussed. Alfred Gohl Maschinenfabrik GmbH. Siemensstrasse 6, D-7541 Straubenhardt 4 — Feldrennach.

Veneers and wall panels. This substantial manufacturer of veneers and wall panels is interested in a joint venture in the United States with a U.S. sawmill for production of its veneers for interior doors and wall panels for export from the United States. White and red oak and carolina pine veneers are the preferred wood types. Wilhelm Herbers. Herholz. Herbert Herberts KG Postfach 44, Fichenallee 75-77. D-4422. Ahaus-Wessun.

Automotive hoses and tubing. This company is interested in a cooperation or joint venture with U.S. manufacturer of polyamide hoses and pipes for U.S. production of brake systems, air and hydraulic oil pressure gauge pipes, fuel feed pipes: vent pipes, vacuum lines: and leveling system. Mr. Ingenhag. Deutsche Tecalemit GmbH. Postfach 120128. Am Metallwerk 11. 4800 Bielefeld 12.

Steel heating boiler. This boiler is designed for economical burning of coal for industrial, commercial and residential heating. It has automatic feeding of the coal from a built-in storage bin into the boiler according to heat requirements and automatic dust-free disposal of the ash. Hofmeier Waermetechnik GmbH & Co. KG. Postfach 227, 4530 Ibbenbuehren 1.

Chassis for industrial trucks (van, panel, dump, stake and platform, utility, tank, garbage), as well as for mining and construction machines, interplant transfer vehicles, and others. The German firm would also be interested in supplying the chassis to American manufacturers of truck bodies which export to Germany. This is the largest German manufacturer of chassis for trailers, trucks, etc. and the second largest in the production of lawn mowers. Herr Hoffmann, Al-Ko Oversea GmbH. Ichenhauser Strasse 14, D-8871 Koetz Schwaben.

Vertical sieve, circular bag-type filters, rotary pocket seals, conveyor elements, circulating-air-wind-sifter and quick-mixer. These products are offered for U.S. production under license by an old-line German manufacturer of silo and mill machinery. Mr. Cadell. Adolf Baumgarten GmbH. Postfach 1120, 4952 Porta Westfalica.

The Carl Duisberg Society, Inc. offers a study tour in "industrial relations" to employees from member or contributing companies of **The Carl Duisberg Society, Inc.** Running from November 2 to November 20, 1981, the study-tour will cover several cities in the Federal Republic as well as Brussels, Geneva and Paris. Its purpose will be to provide a common understanding of the industrial relations structures in West Germany and the European Community, and a basis for comparison of the German/European model with practices in the United States. Among others, topics will be management/worker relationships, co-determination, wage policies, employee profit sharing, etc. A substantial portion of the cost will be subsidized by the German government.

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German-American: Recent University of California-S.B. Grad.; read/write fluent German. Number (B.A. Math/German), people-oriented. Desires training in all facets German-American trade, esp. export-import. Currently attending the American Graduate School of International Management—available May. Willing to travel/relocate. Contact: Claus Mory, 5969 W. Orangewood Ave., Glendale, Arizona 85306.

German-American: Recent Ohio Wesleyan University Grad., mature and responsible; effective communication and translation skills. Articulate, oriented towards people and results. Seeking entry-level/trainee position. Willing to travel and relocate. Contact: Ronald Kosmahl, 7419 River Road, Olmsted Falls, OH 44138.

U.S. Attorney, (27), educated in U.S. (Washburn Univ.) and Germany, now completing two-year judicial clerkship with Kansas Supreme Court, fluent German, seeks entry-level position with German or American corporation. Contact: Paul Maricle, 1433 Lincoln, Topeka, KS 66604. Tel.: (913) 232-0671.

Translator (German, English, Spanish), University of Heidelberg graduate, seeks position in west-central Florida area; also free-lance assignments accepted. Contact: Elke G. Alcott, 216 10th Avenue, N.E., St. Petersburg, FL 33701.

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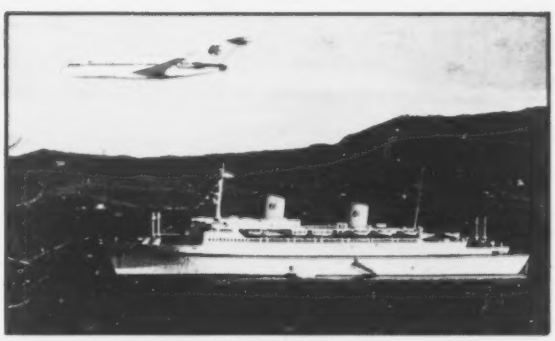

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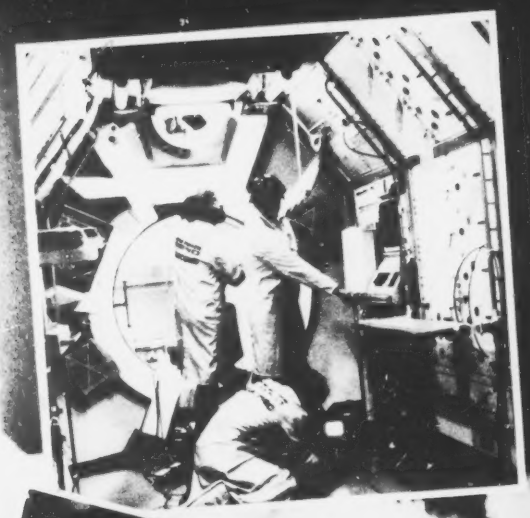

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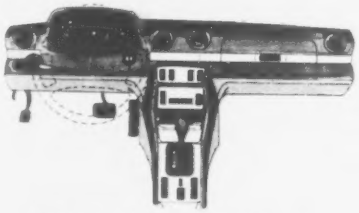
The 300 D's sheer road-holding ability is unsurpassed even by Europe's highly touted sports sedans. The thumps and bumps of the road are meanwhile muffled, in often ingenious ways: by a special shock absorber in the *steering* system, for example. And by seat springs tuned to the oscillations of the suspension.

A constant joy of 300 D ownership is the sense that you are not so much operating a diesel as you are driving a Mercedes-Benz: smooth, precise, imperturbable. The power steering assist, for instance, is painstakingly designed *not* to feel like power steering–but to lift the work from your arms while leaving the "feel" in your fingertips. And consider the 300 D's four-speed automatic transmission. You don't work this elegant piece of engineering by jerking some gadget up on the steering column. You shift a floor-mounted lever just like a manual–or simply leave it in *Drive* while it does your shifting for you.



Within the 300 D's aerodynamic envelope of a body exists generous head-, shoulder- and leg-room for five adults. The 300 D's cockpit is not only well-appointed but well-designed. Stereo speakers, climate control system, radio antenna, cruise control–these and indeed all 26 controls can be adjusted or actuated without your having to glance away from the road.

The 300 D is clearly more than just another car with a diesel engine. Yet there is no question that its diesel nature helps make it such an intelligent choice for the world of the 1980's. It burns a quarter of the fuel while idling that like-sized gasoline engines burn. It is so hardy that conventional tune-ups are simply never needed. And the 1981 EPA report card of the 300 D reads: EPA estimated mpg of 24, highway estimate of 28 mpg.*

Finally, current data show that the 300 D has retained *83 percent* of original value after the first three years–far outperforming most conventional luxury sedans in this acid test of owner satisfaction and buyer demand.

*EPA estimate for comparison purposes. The mileage you get may vary with trip length, speed and weather. Actual highway mileage will probably be less.

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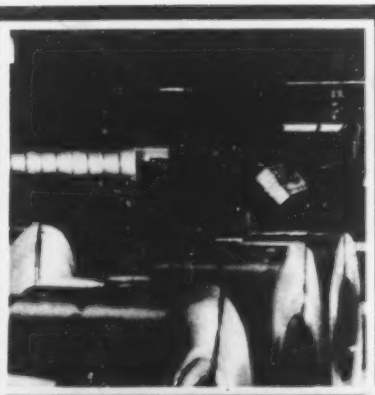

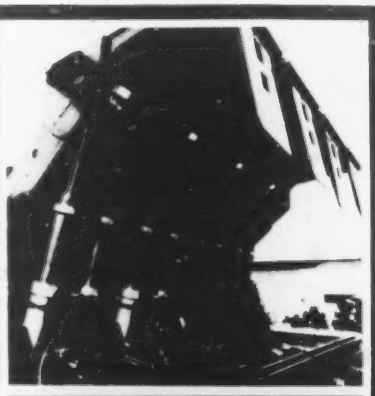

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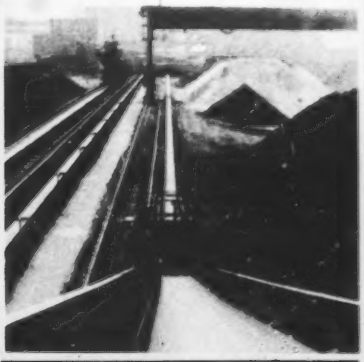

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The **German American Trade News** is publishea bimonthly by the German American Chamber of Commerce, Inc., 666 Fifth Avenue, New York, New York 10103 and also distributed at regional Chambers in Atlanta, Chicago, Houston, Los Angeles, San Francisco and Washington, D.C. Subscriptions in the United States and Canada $9.00 per year, $18.00 for 3 years; other countries $12.00 yearly, overseas airmail $24.00 per year. Single copy price $1.50. For change of address, please give old as well as new address including zip code (if possible, enclose address label from magazine). Allow 4-6 weeks for change.

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Chamber Commentary

Nostalgia and expectations

Europeans who grew to maturity after 1870 were not aware that they would spend their adult lives in what a later generation would term a golden age; it would only end, suddenly and conclusively, with the outbreak of World War I. It is also likely that a new generation of Americans and Europeans will look back on the twenty-five year period between 1948 and 1973 with analogous nostalgia. An era of expanding expectations was brought to a sudden halt by the traumatic OPEC increase in the price of oil. It remains to be seen whether the ensuing years of anxiety are to become a permanent feature of our societies or whether we shall prevail and return to the path of growth.

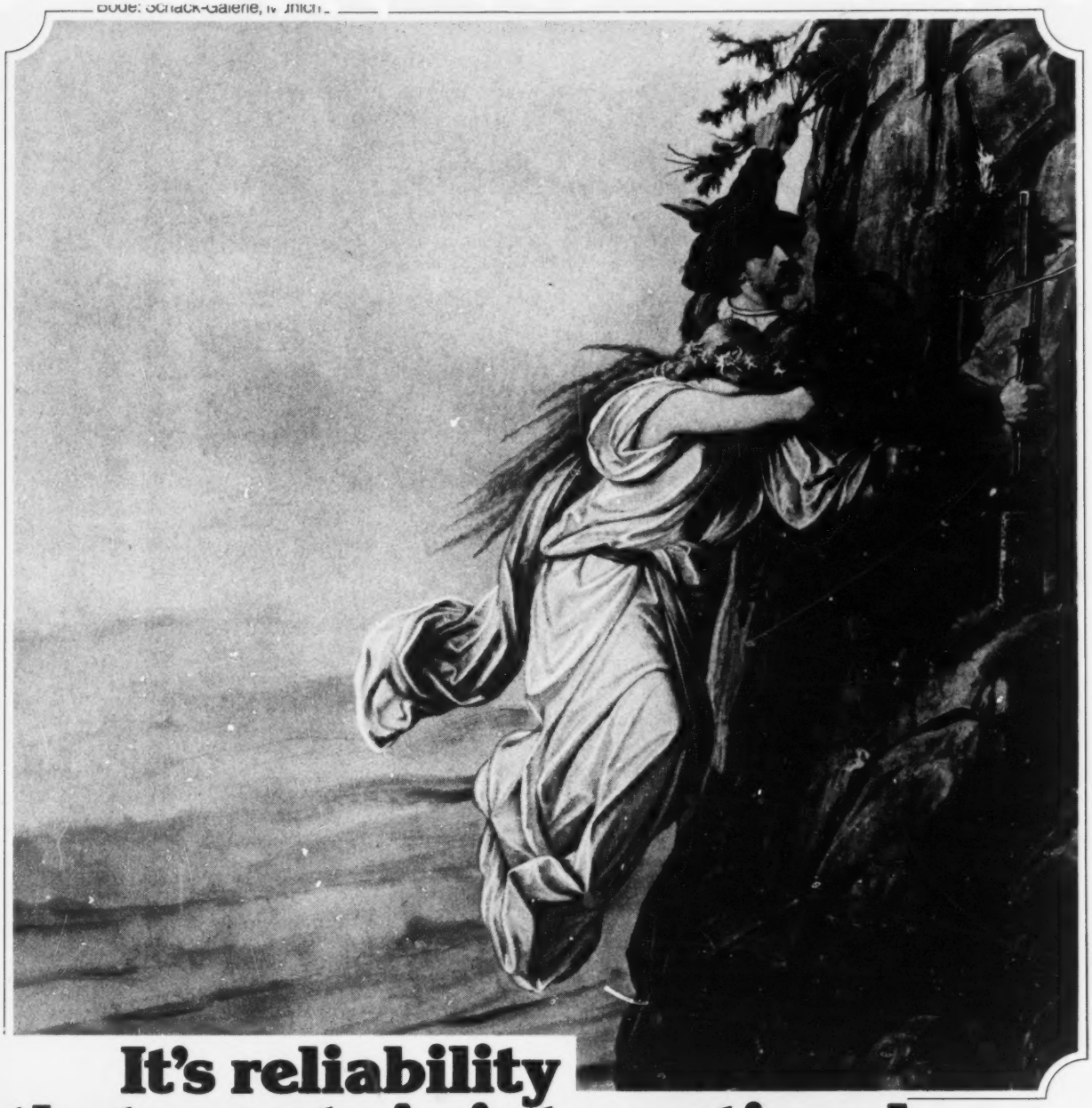
Apart from the legacy of nostalgia, this quarter century of expanding prosperity has bequeathed us something far more tangible. The governments of the developed democracies have increasingly arrogated to themselves an active redistributive role, supplanting markets as allocators of wealth and opportunity. Among others, they have assumed the existence of a "social contract" between themselves and society at large. The omnipresent, omniprovident government now finds itself everywhere with an obligation to distribute benefits at a pace that has outstripped the growth in productivity necessary to pay for them. In essence, the publics in all industrial societies have made promises to themselves in the form of social welfare benefits which they cannot afford at current or anticipated rates of economic growth.

The dilemma is devilishly complex. On the one hand, these promises constitute a mortgage on the future national product. At the same time, the implicit disincentives to individual enterprise and an inflationary bias impede the productive process itself.

President Reagan and his Director of the Office of Management and Budget, David Stockman, have initiated impressive efforts to bring the U.S. budget deficits under control, but the precarious financial underpinnings of Social Security remain a grave problem. For its part, Bonn has only recently acknowledged that it too has a problem. This year's public sector deficit will balloon by DM 34 billion. This follows a 20 percent increase in 1980, when consumer prices rose only 5.5 percent. Bonn now devotes some 20 percent of expenditures to servicing its debts.

Clearly, cuts in growth are going to be made, but one man's fat is another man's meat. While every reasonable person agrees that economies must be effected, most want another constituency to bear the burden. To be sure, the barriers to this campaign are lower in the United States than in Germany. In this country, social welfare programs have been widely regarded as somehow at variance with the perceived American spirit of self-reliance. In Germany, where the social welfare system dates back to Bismarck, the concept is sacrosanct and outright cuts are scarcely conceivable. Still, some degree of equilibrium must be restored. For our national governments, in order to restore credibility; for the electorate, to ensure the viability of the safety net.

Böcklin: Schack-Galerie, München



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Trade Fairs

23rd SPOGA Cologne 1981

In 1980 the total German production of sports and leisure items amounted to almost DM4.2 billion, according to the latest figures available, and so was clearly greater than the 1979 total of DM4.04 billion. The figures signify a nominal 3.9 percent growth. There was a slight increase in exports from DM708 million in 1979 to DM720 million in 1980. At the same time imports rose from DM1.55 billion in 1979 to DM1.7 billion in 1980 (+ 9%). These figures were given by the BSI—Bundesverband der Sportartikel-Industrie e.V., Bonn—six months ahead of the 23rd SPOGA Cologne—the International Trade Fair of Sports Goods, Camping Equipment and Garden Furniture—which will take place from Saturday 12th to Tuesday 15th September 1981.

The BSI, which, ever since SPOGA's foundation has given it excellent support, states in its provisional report for 1980 that the turnovers of the BSI's member firms for that year—in relation to the previously anticipated maximum number of sales—were, without exception, satisfactory and, in a few cases, could even be termed very good. This especially applies to roller skating and swimming, surfing activities, jogging and keep-fit sports, to all of which, in the opinion of the BSI, the large share of orders arising from the SPOGA Cologne 1980 made a considerable contribution.

Swimming Pool Fair

According to the latest survey (1979) undertaken by the German Balneal Society (Deutsche Gesellschaft für das Badewesen), there are 6,665 public swimming pools in the Federal Republic. Of these, 1,485 are indoor baths, 1,560 indoor swimming baths run by schools and pools for teaching swimming, 2,735 are open-air pools and 885 are natural swimming pool facilities. The Society sets the existing number of private swimming pools at more than 250,000. In the private sector an annual growth of 20,000 units is expected at the moment. The s + b—7th International Trade Fair for Sports, Swimming Pool and Leisure Facilities with International Congress to be held in Cologne from October 28 to 31, 1981 offers a complete survey of swimming pool systems and equipment. This year the s + b rates as the leading trade event of its kind in the Federal Republic of Germany.

Many experts believe that new possibilities in gaining energy will provide big incentives for the private swimming pool sector. In this respect they are thinking chiefly of the use of heat pumps and of solar energy. In the long term these developments would counteract the shortage of energy and high maintenance costs. Moreover, since 1979 it has been possible to use savings accounts with building societies for the construction of private swimming pools.

International Men's Fashion Week

Well over 900 exhibitors from at least 35 countries are expected to attend the fall event of the *International Men's Fashion Week* and the *International Jeans Fair* being held in conjunction with it from Friday to Sunday, August 28 to 30, 1981 in Cologne. At this early stage, it can be said that the two target-group oriented apparel fairs will have considerable importance attached to them in view of growing economic difficulties. As meeting point and ordering center for the trade in things sartorial for men of all age groups, Cologne now leads across the world and is, according to trade visitors, irreplaceable. This is reflected above all in the steadily growing international participation of both exhibitors and trade visitors. Exhibitors from abroad now account for over 40 percent of the total. At the Spring Fair in February, 1981, the foreign attendance list was headed by the United States, followed by Italy, the Netherlands, Switzerland, France and Great Britain. 14 states were involved in group displays, including, for the first time, Japan, Mauritius, Turkey and Uruguay.

The organization of a separate Jeans Fair, to be held for the third time in separate premises, but parallel to the *International Men's Fashion Week*, in August, 1981, has proved its worth. Its object, to improve market transparency and assure a target-

group-oriented presentation of merchandise, has very largely been achieved already. This has been confirmed by the positive response from industry and trade, but above all by the exhibitor attendance figures, which were up 15.2 percent in spring, 1981. The fall event is expected to produce a further increase in this important category group.

IMB Cologne 82

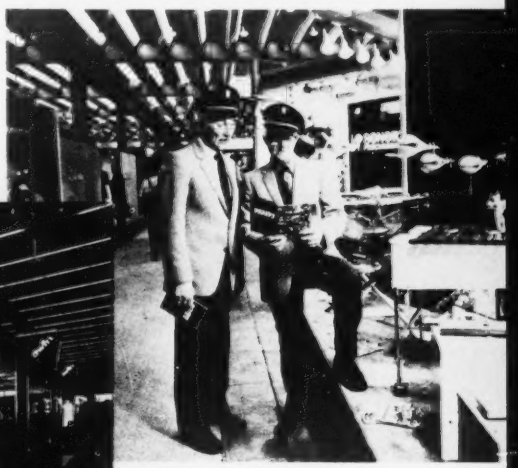
The Cologne IMB can justifiably claim to be the world's most important and biggest capital goods fair for the sewing industry. It is being held for the 14th time in May 1982 and has been in existence for more than 30 years. More than 400 exhibitors grouped on a floor space of 473,440 sq. ft. are showing everything needed for rational production of clothing in the following sectors: cutting; sewing; ironing and pressing; handling and conveying; energy; and advisory services. The number of trade visitors is no less impressive. Over 28,000 engineers, technicians and other executives from 76 European and overseas countries meet here to study technical progress.

As is always the case, the Convention of Clothing Manufacturers will be held together with the fair. It is not only the biggest special convention for clothing technicians but has acquired a group of more than 1,000 regular delegates over the years. This is a clear vote of confidence in its high standing. There is a simultaneous interpreting system in three languages for the program of lectures to enable foreign delegates to take part in the convention.

Source: Bekleidungstechnisches Institut (Clothing Institute), Mönchengladbach

Children's clothing and hardware

The International Trade Fair *Children and Young People,* Cologne whose autumn event from Friday 25 to Sunday 27, 1981 will be attended in all probability by more than 550 exhibitors from at least 20 European and overseas countries, is the only trade fair in the world offering a comprehensive product range of international top quality covering the complete outfitting requirements for babies, children and young people up to 16 years of age. International attendance at the Trade Fair CHILDREN and YOUNG PEOPLE has increased steadily over the past years, a fact which underlines the importance of this fair for multilateral trade. At the autumn event 1980, 39 percent of the 538 exhibitors came from abroad. Of nearly 9,000 professional potential buyers coming from 47 European and overseas countries, the foreign proportion amounted to 26 percent. The trend towards increasing internationalization continues. More than 550 exhibitors from over 20 countries are expected to attend the autumn event in Cologne.



Frankfurt Music Fair

The second independently held Music Fair Frankfurt closed on a melodious final chord after five lively days. By far the great majority of the 680 exhibitors from 27 countries consider their expectations to have been met, sometimes, indeed, surpassed: 88 percent of all exhibitors assess the business results they achieved as being positive, which was true both of demand from customers from the Federal Republic as well as from other countries. The average of 88 percent satisfied exhibitors was exceeded in the case of those offering upright pianos, grand pianos, harpsichords and organs (92%), percussion instruments (91%) and electric acoustic musical instruments and accessories, as well as lighting equipment (90%). The proportion of satisfied exhibitors amounted to exactly 88% for those displaying wind instruments, the string and plucked instruments sector was somewhat below this (84%), as were harmonica instruments (80%), music publications and sheet music (77%). The role of the Music Fair Frankfurt was once again confirmed as the place which for this branch dominates around the world as an opportunity for contacts and negotiations. At a good 30 000 trade visitors from 60 countries, the number of visitors at last year's Music Fair, the first to be held independently, was slightly surpassed. They took advantage of the world offer in musical instruments, accessories and publications concentrated here to obtain information on the basis of international comparison and to determine the promising market trends. The choir of foreign buyers was led by visitors from the Netherlands (already occupying the leading position in 1980), followed by trade colleagues from Switzerland, France, Belgium, Italy, Austria, Sweden, Spain, Denmark, Norway, Finland, Greece. As far as visitors from overseas countries were concerned, it was above all the potential customers from Japan and the USA, as well as from Canada, Australia, South Africa, Argentina, Israel, the Republic of Korea, Jordan and Thailand, who contributed to the flair of this trade fair, characterized by music as the "language of the world".

Frankfurt International Fair

A little economic sunshine is undoubtedly peeping out from behind the forecast clouds. Although it did not spread its warmth evenly over the world-wide consumer goods market of the Frankfurter International Fair, there was no suggestion anywhere at all of even a partial eclipse. Many encouraging signs became apparent in a reassured atmosphere, above all in the case of those exhibitors presenting an offer geared to the trend, that is to say, in high quality and expressively individual style. The roundabout of innovations was also in full swing again this spring and trade buyers were glad to take a seat whenever they felt that consumer wishes were successfully met. Lively activity was noted right from the outset on the stands of the 3500 exhibitors from 54 countries. As in the year before, around 90 000 visitors were again recorded, this time from 87 countries (1980: 83); the proportion of guests from abroad increased yet again. The strongest representation was from the Netherlands, Switzerland, Italy, France, Belgium and Great Britain. Exhibitors established important contacts with interested visitors from Spain and Greece, from Latin America and the Arab oil countries. The clearly apparent rise in the level of visitors from Japan and the USA was to be traced to the favorable rate of exchange. Apart from this, the current American market is evidently more and more interested in European "nostalgia".

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Highlights from the Annual Report 1980

	Consolidated Figures (in million DM)
Loans to customers	**12,032.8**
Total deposits	**12,361.5**
Bonds issued	**6,505.7**
Equity capital and reserves	**526.4**
Total assets	**20,292.9**

The complete Annual Report in German and summarized Annual Reports in English, French and Spanish are available on request.

Managing Partners:
Dr. Wolfgang Graebner, Herbert H. Jacobi, Dr. Hanns Christian Schroeder-Hohenwarth, Klaus Subjetzki, Rüdiger v. Tresckow

During a year of widespread economic uncertainties, BHF-BANK nevertheless achieved good results in 1980. Consolidated total assets advanced to DM 20.3 billion, an increase of 10.3%. The Bank's net interest earnings improved slightly despite a marked general decrease in interest spreads.

International business expanded in all major sectors: Loans to foreign clients rose by 19%, international deposits increased substantially and international commercial business continued to grow. In addition, the Bank succeeded in broadening its traditional relations with institutional investors at home and abroad.

In 1980, BHF-BANK participated in all 57 international DM bond issues as well as 3 private placements and acted as lead or co-manager for a total of 17 issues.

The Bank's international service capacity was further extended with added activities at both the New York and Grand Cayman branch. Representative offices were opened in Los Angeles and Madrid.

BHF-BANK International in Luxembourg held its own despite the negative developments of interest earnings in the Euromarkets.

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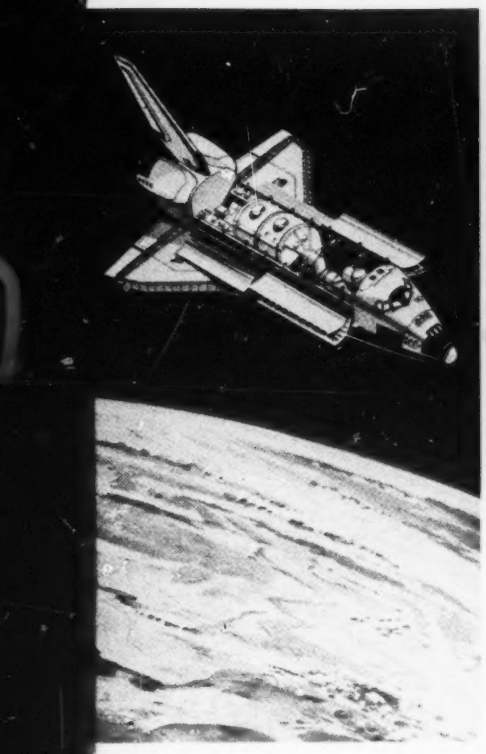


German Technology in the Outer Frontier

When the U.S. space shuttle Columbia completed its successful landing and return last April, it wrote a new chapter in European as well as American aspirations in space. A small group of German engineers in Bremen watched the telecast of the pioneering lift-off from Cape Canaveral, Florida with the intensity of witnesses to the birth of an heir. And well they might. The engineers in northern Germany were sitting in a room opposite a field occupied by the buildings that house the assembly line for Spacelab, a reusable orbiting laboratory scheduled to go into space in the shuttle's capacious cargo bay in late 1983. The success of America's dream, Columbia, was the necessary prerequisite to the success of Europe's dream, Spacelab.

The concept of Spacelab was born in 1973, when 10 European countries pooled their financial and technological skills into the European Space Agency. Accordingly, Spacelab is a true European hybrid. Italy, which provided 18 percent of the financing, built the module's steel cylinders. France, with 10 percent, was the third-largest contributor, and received the contracts for the electronic command system. A total of some 35 contractors and subcontractors were involved in the project.

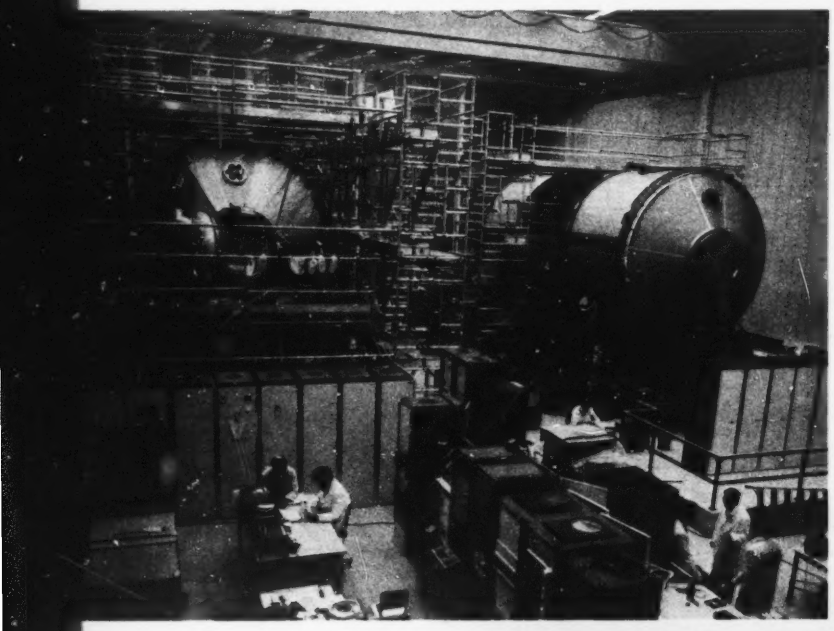
Since Bonn paid 50 percent of Spacelab's costs of $ 800 million, German firms got the lion's share of the work. AEG-Telefunken, the German electrical giant, designed and built power systems, and Dornier GmbH, a transport systems manufacturer, installed life-support equipment.

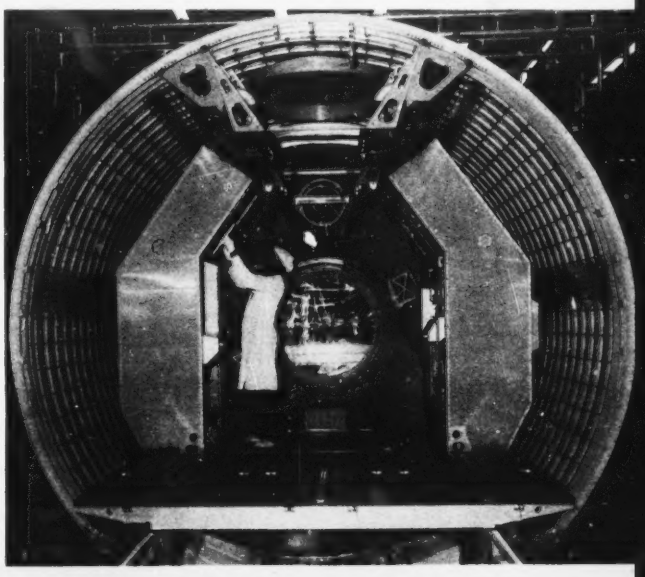
The design contract, which was awarded in a competition, went to Bremen-based ERNO in 1974. The only other competition was furnished by Germany's other big aerospace concern, Messerschmidt-Boelkow-Blohm (MBB) after British Aerospace withdrew early in the bidding. As irony would have it, MBB absorbed ERNO's parent company, Vereinigte Flugtechnische Werke (VFW) earlier this year. The fusion, encouraged and supported by Bonn, has created a company whose size and financial resources will enable it to compete with other European giants such as British Aerospace or France's Aerospaciale.

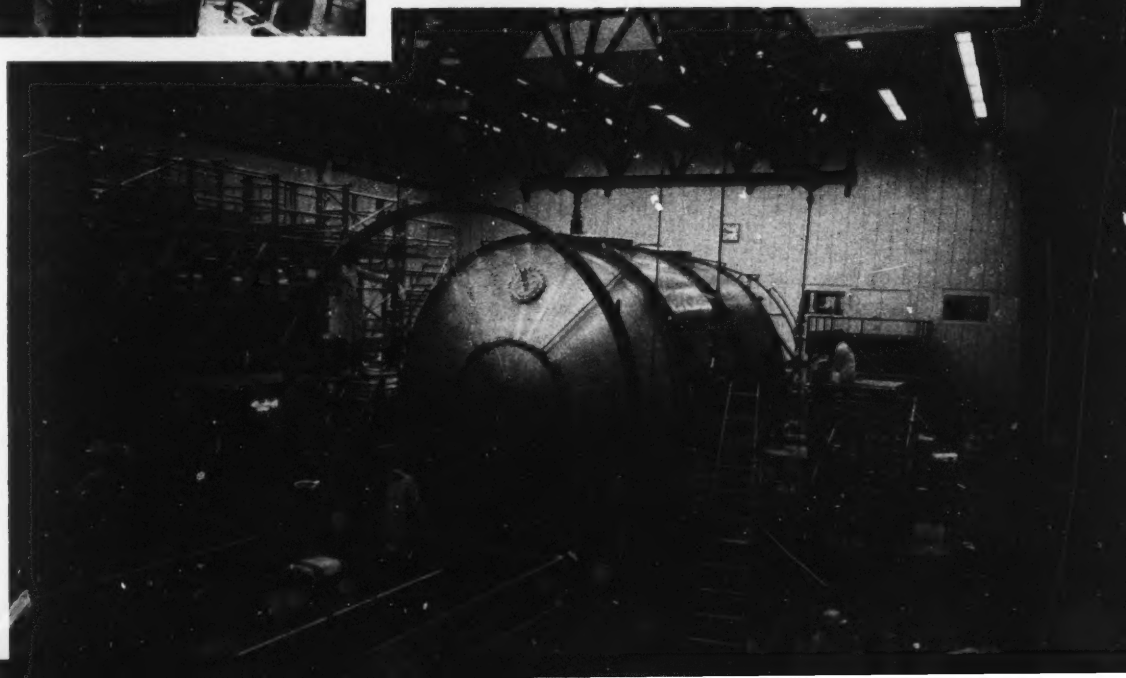
The idea for Spacelab stemmed from the U.S.'s Skylab and the Soviet Union's Soyuz space stations. However, like the shuttle, it will be reusable. Thus, unlike its American and Soviet predecessors, hundred's of millions of dollars worth of unique equipment will not be condemned to eventual incineration as the unit is gradually pulled by Earth's gravity back into the atmosphere.

The Spacelab system is designated for three basic functions. Studies and experiments conducted during previous manned and unmanned space flight confirm the exceptional research potential offered by space in the disciplines noted in the table.

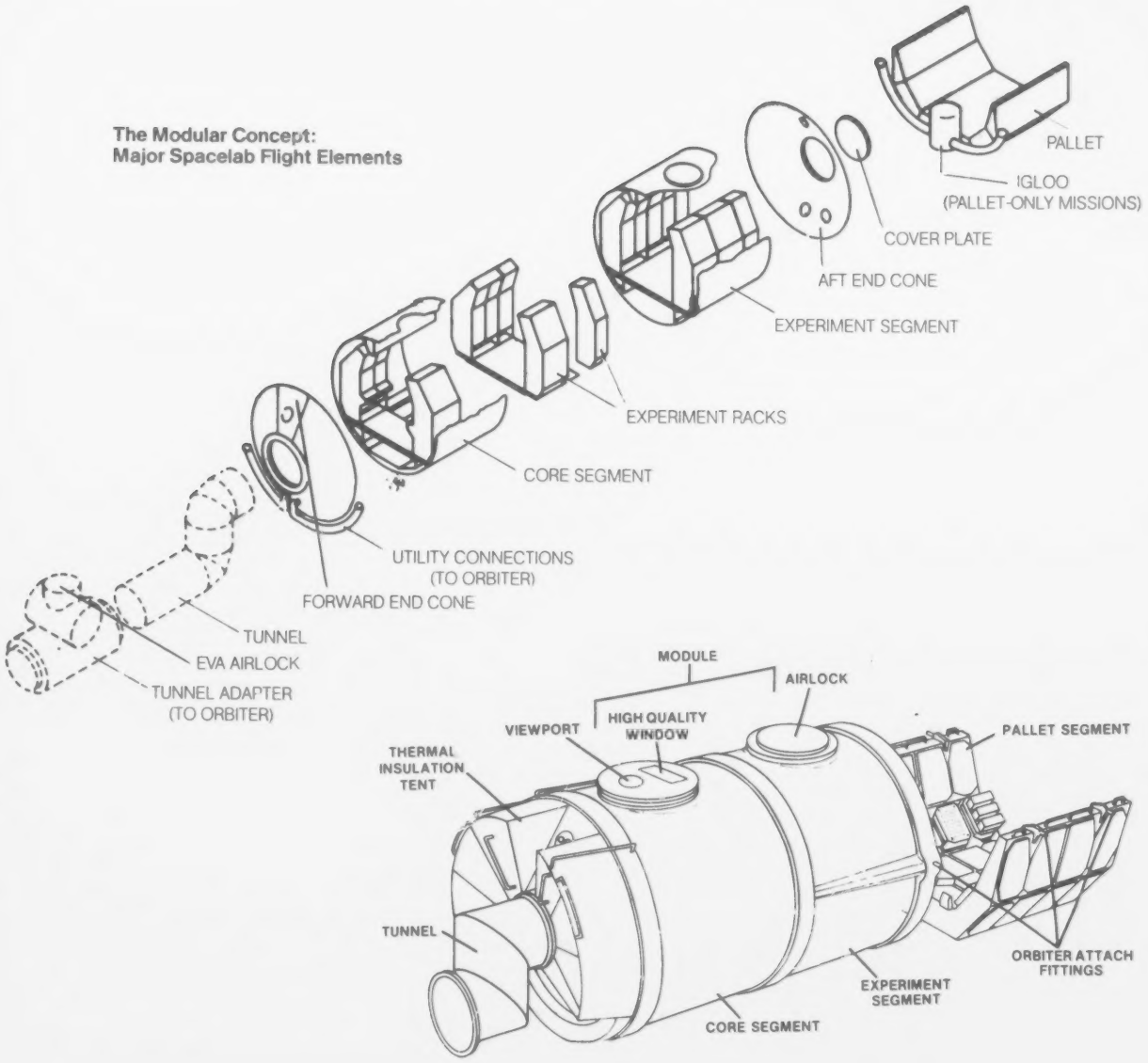
Spacelab Function	Disciplines	Favorable Conditions
1. Scientific and technology laboratory	— Materials research and processing — Biology and medicine	— Weightlessness — Direct radiation — Isolation from periodicities
2. Observation platform	— Earth observation — Communications and navigation — Astronomy and astrophysics — Atmospheric, magnetospheric and plasma physics	— Orbital position — Direct radiation — Direct viewing of deep space
3. Test platform for space systems	— Communications and navigation — Remote sensing	— Orbital position — Operational environment







The Modular Concept:
Major Spacelab Flight Elements



The Spacelab concept

But why Spacelab in the first place? The answer is as interesting as the vehicle itself. Progress, in its fullest and most complete sense, has reached certain limits. Solutions to many of the physical problems facing this planet can no longer be achieved by traditional methods. Technology is seeking a new environment by exploration of the so-called "eighth continent"—space. The intent is to discover new ways and means of problem-solving by exploiting the physical characteristics of space. The perfect vacuum and zero-gravity conditions of space, for example, will probably lead to solutions of problems facing industry, basic research, and the earth sciences. Reusable systems, like Spacelab, will point the way, collecting and transmitting data to benefit many sectors of technology and research.

The European laboratory and the U.S. shuttle will be an integrated system, with the laboratory fitted into the shuttle orbiter's cargo bay and connected to the transporter's supply systems.

All systems are reusable, capable of being used 50 to 100 times and refurbished quickly for new missions. There is but one exception to this. The large external propellant tank on the shuttle is jettisoned and is burned up in the atmosphere. The two solid-propellant boosters are jettisoned after burn-out and recovered from the water for re-use.

The shuttle system is designed to orbit the earth at altitudes of 125 to 300 miles. Upon completion of the mission, the shuttle "glides" back to earth in unpowered, controlled flight. Spacelab remains in the cargo bay during the entire operation. The payload specialists—up to four during the seven to ten-day mission—fly as passengers in the orbiter during the launch and return phases. Along with the shuttle's crew, the payload specialists have their living quarters in the shuttle transporter.

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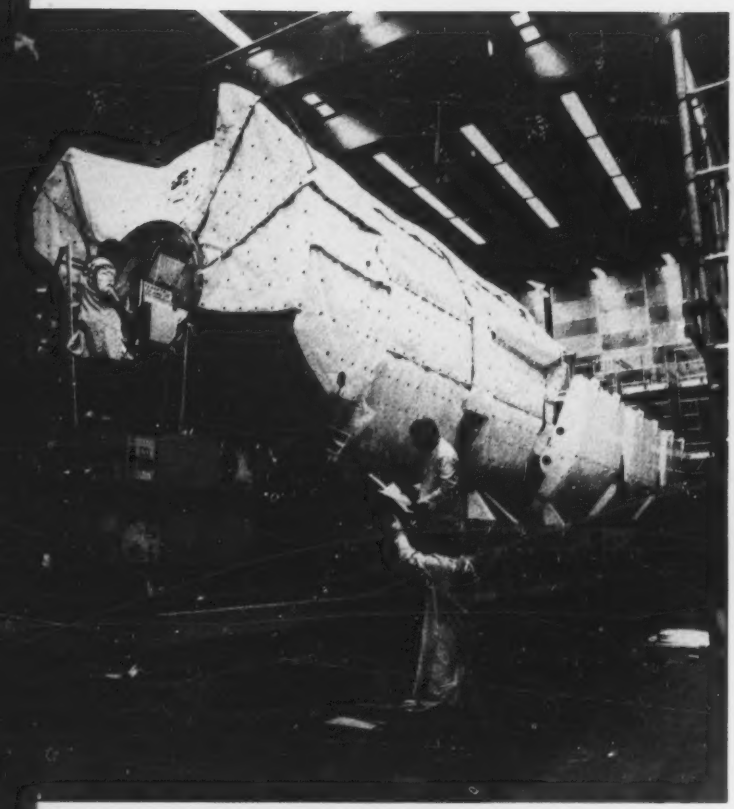
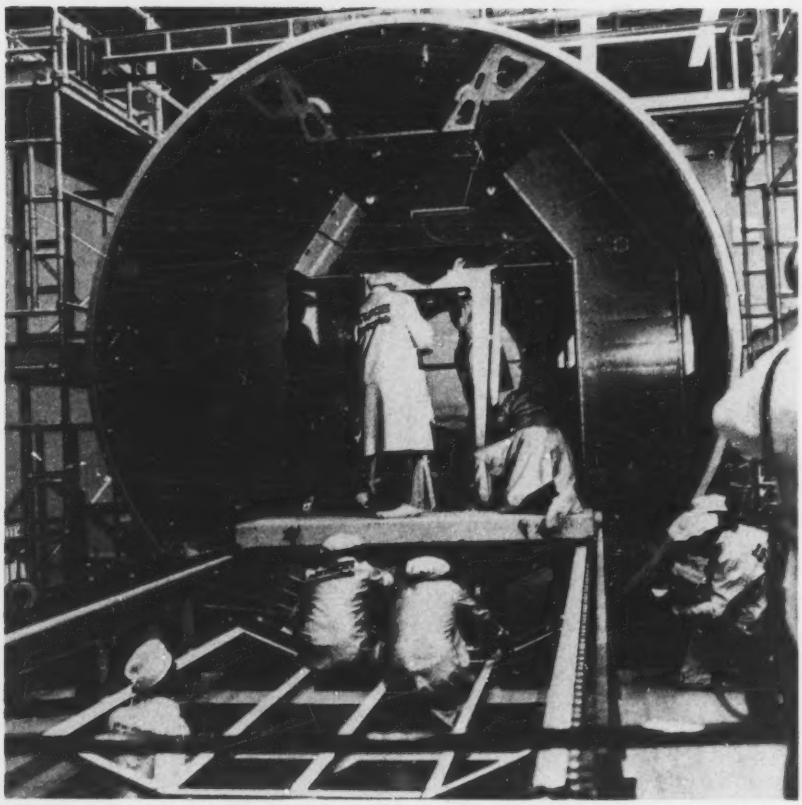




Layout and design

Spacelab itself is a cylindrical structure slightly over four meters in diameter and has a length of up to seven meters (it is a modular system). A variety of electronic and mechanical operating components are accomodated in standard racks which also house the experiments. A complete environmental control system handles the nitrogen/oxygen mix, humidity, and temperatures, which range between 66° and 76° F.

At the work area in the core segment—part of the modular design system—a built-in work bench serves as a desk. The center control rack contains the electronic systems and the computer with its data storage and processing systems, plus the display units for data control. A second part of the modular system is reserved for experiments. An airlock on the ceiling of the core segment can be used for cameras or other research equipment.

Up to five pallets (each almost 10 feet long and some 14 feet wide) can be linked together in the shuttle's cargo bay along with a pressurized container (igloo). The latter contains

the high-precision control and data units. In its various flight configurations, Spacelab can be arranged to provide a maximum useful length of around 54 feet.

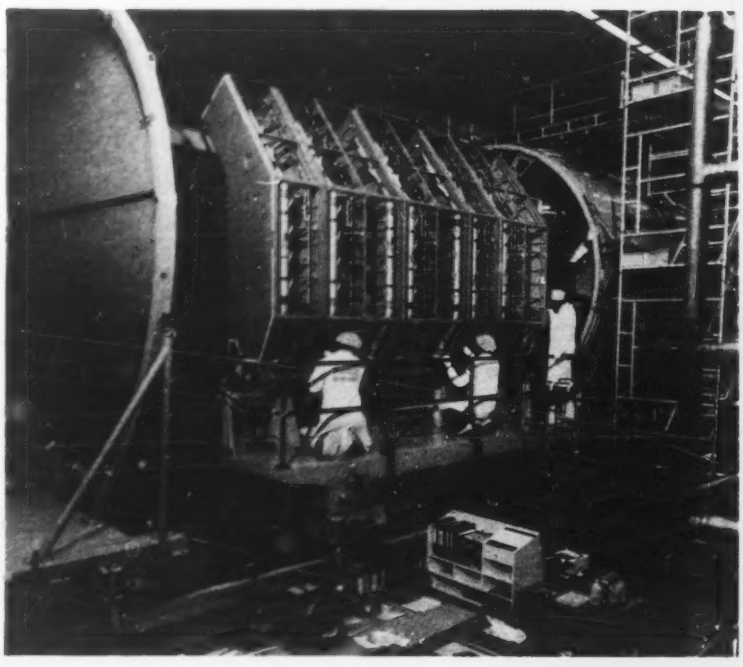
Its operational flexibility is one extremely important advantage available to experimenters. The direct access of personnel to the experiment flow is another decisive advantage. The payload specialist can immediately control, monitor and repeat the experiments in coordination with the ground station, which in turn receives data via a satellite-supported data and tracking station.

When the mission is completed, the shuttle and laboratory will return to the ground station—usually Cape Canaveral. Spacelab can be removed completely or in individual segments. It is then overhauled, re-equipped and prepared for another launch.

With Columbia's successful maiden flight, the major technological obstacle to the Spacelab project has been overcome. Nevertheless, the budget barrier remains. NASA has suffered perennial budget squeezes over the past decade, and Reagan Administration budget-cutters have proposed a $ 604 million reduction in the agency's 1982 budget, from $ 6.7 billion to $ 6.1 billion. Largely because of its military potential, the shuttle escaped the financial cleaver and will probably continue to enjoy Administration support. Still, NASA must prove that the vehicle can fly with a frequency that will reduce the cost of space flight.

The main implication of this potential cost squeeze is to call into question the timing of the scheduled lift-off of Spacelab in June 1983. Delays have characterized the shuttle program in the past and may intervene in the future too. For its part, ERNO shipped the engineering model to NASA last December, and will deliver the operational Spacelab modules and pallets in two stages, the first in November and the second in May 1982.

Financial and scheduling imponderables aside, then, the stage has been set for an exciting new chapter in which mankind will exploit as well as explore space. And, for the first time, European science and engineering will be participating as a full and equal partner in a pioneering effort in Earth's outer frontier. ■



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The Foreign Investment in Real Property Tax Act

Henry J. Gumpel

Introduction

The Foreign Investment in Real Property Tax Act of 1980 (new Code Sections 897 and 6039C)* was signed by the President on December 5, 1980. The new tax applies, in general, to dispositions of United States real property by nonresident aliens and foreign corporations (herafter referred to as foreigners) after June 18, 1980. Compared to the numerous draft bills that preceded the final Act, the impact of the new tax appears comparatively mild. The two most conspicuous deviations from the draft bills are that dispositions of shares of foreign corporations owning US real property are not subject to the tax, and that the elaborate withholding provisions of the draft bills were shelved for reconsideration by a future Congress. Also, gain from dispositions of shares of a United States corporation is covered by the new rules only if at least half of its assets consists of US real property interests.

Code Section 897 includes the substantive provisions and Section 6039C those in reference to returns and reporting requirements. The following presentation is limited to the principal provisions.

The draftmanship of the Act shows the haste in which it was completed during the final weeks of the 96th Congress.

Section 897 employs a number of novel terms and concepts, some of which are defined in the section whereas others are not. The similarity between some of the technical terms used (e.g., "U.S. Real Property Interest" and "Interest in Real Property") does not contribute to the understanding of the rules. Apart from the inept draftsmanship, major uncertainties remain because the new sections refer in no less than 12 places to future administrative Regulations, including some areas of considerable substantive importance, thus in effect delegating legislative authority to the Treasury Department.

Discussion

In General

The general rule of Section 897(a) is that capital gains or losses realized by a foreigner after June 18, 1980, from the disposition of a US real property interest are treated for tax purposes as if the foreigner hd been engaged in trade or business in the United States during the year of disposition and as if the gain or loss had been effectively connected with that trade or business. This rule implies that, except as modified by Section 897, the capital gains tax on this income is computed in the same manner and at the same rates as in the case of US taxpayers. Accordingly, a 28% tax rate applies to foreign corporations unless their regular tax rate is lower, and nonresident alien individuals who held the property interest for more than one year pay tax at the graduated rates of the table on 40% of the gain, at a maximum rate of 28%. A minimum tax rate of 20%, computed on alternative bases, applies to nonresident alien individuals in lieu of the regular minimum tax rate of 5.6% (14% of 40%).

The statutory fiction according to which the gains here discussed are treated as effectively connected income permits no exception. It appears, however, that the irrebuttable presumption established by the rule is limited to those gains. Whether other US source income of a foreigner is effectively connected will be decided, as in the past, on the basis of the facts and circumstances of the individual case, as measured against the applicable standards (the "assets test" and the "activities test" of Section 864(c)(2)). This would apply, for example, to gain from the sale of shares of a non-US corporation owning US real estate which is not covered by Section 897, or gain from the sale of shares of a US corporation not qualifying as a United States Real Property Holding Corporation, as discussed below. It goes without saying that all Code provisions in reference to operating income from US real property derived by a foreigner, such as the election to be taxed on a net basis (Code Sections 871(d), 882(d)) remain valid. The statutory fiction impliedly places the geographic source of the gains covered by it in the United States, thus precluding the use of the US foreign tax credit which otherwise might be claimed in some situations (e.g., if the sale of the shares is made outside the United States). In addition to the statutory rules, some of the international tax treaties to which the United States is a party are of considerable although temporary importance in the application of the new provisions.

Taxable transactions

The tax applies to the disposition, by a foreigner, of a United States real property interest (Section 897(a)(1)). An understanding of the following key terms is essential for the application of the new rules.

Disposition

The term is not defined in the statute. It clearly covers sales, exchanges and other transfers for a consideration. It also covers the distribution of a U.S. real property interest by a foreign corporation as a dividend or a distribution in redemption or liquidation (Section 897(d)(1)).

Interest in Real Property

The term includes fee ownership and

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* All statutory references are to the Internal Revenue Code, unless indicated otherwise. ⁵, Henry J. Gumpel.

Mr. Gumpel is a member of Walter, Conston, Schurtman & Gumpel, P.C., New York

co-ownership of land or improvements thereon, leaseholds of land or improvements thereon, and options to acquire land or improvements or leaseholds thereon (Section 897(c)(6)(A)). It also covers personal property that is associated with the use of the real property, such as movable walls or furnishings (Section 897(c)(6)(B)).

United States Real Property Interest

This term includes:

—The direct holding, as owner or co-owner, of U.S. real property, including a mine, oil or gas well or other natural deposit located in the United States (Section 897(c)(1)(A)).

—The holding of a U.S. real property interest through a partnership, trust or estate.

—An equity interest in a domestic corporation qualifying as a United States Real Property Holding Corporation.

United States Real Property Holding Corporation

Subject to certain exceptions noted below, a domestic corportion qualifies as a United States Real Property Holding Corporation (herafter USRPHC) if at least 50% of its qualifying assets, in terms of fair market value, consists of U.S. real property interests. Qualifying assets include domestic and foreign real property interests and all other assets used, or held for use, in the corporation's trade or business (Section 897(c)(2)). Unless the statute provides differently, it would seem that the ownership requirement must be satisfied at the time when an equity interest in the corporation is disposed of.

Holdings through partnership, trust or estate

A US real property interest held by a partnership, trust or estate is treated as owned proportionately by the members of the partnership or the beneficiaries of the trust or estate (Section 897(c)(4)(B)). Any money, or the fair market value of any property received by a foreigner in exchange for all or part of its interest in a partnership, trust or estate is, to the extent attributable to US real property interests, considered an amount received from the sale or exchange of such property in the United States (Section 897(g)).

Holdings through US corporation

The most important taxable transaction is the disposition, by a foreigner, of an equity interest in a USRPHC, primarily, the sale of its shares. However, the tax does not apply to the sale of shares of any class of stock of a domestic corporation that is regularly traded on an established securities market if the seller owns, directly or indirectly, not more than 5% of that class of stock during the shorter of the two periods referred to immediately below (Section 897(c)(3)).

An equity interest in a USRPHC will not be characterized as a US real property interest if the foreign owner can show that the corporation was not a USRPHC at any time during the period after June 18, 1980, in which he held such an interest, or the five-year period ending on the date of disposition of the interest, whichever is shorter (Section 897(c)(1)(A)). It will be noted that the second time limitation, unlike the first, may include periods during which the foreigner did not hold an equity interest in the corporation.

Apart from the foregoing rules, an interest in a corporation is not considered a United States Real Property interest if the corporation did not hold any US real property interests at the time when the foreigner disposed of his shares or other equity interest in the corporation, and if all the US real property interests held by the corporation at any time during the shorter of the two periods referred to were either disposed of in fully taxable transactions, or ceased to be US real property interests because of their attribution to another corporation or corporations (Section 897(c)(1)(B).* The reason for these rules is to prevent a double imposition of tax.

If a domestic corporation distributes a US real property interest to a foreigner as a dividend, the basis of the interest in the hands of the recipient is limited to its adjusted basis in the hands of the corporation before distribution, increased by gain from the distribution recognized by the distributing corporation and by any U.S. tax paid thereon by the recipient (Section 897(f)). Accordingly, any appreciation in value of the US real property interest owned by the corporation becomes subject to US tax upon the disposition of the interest by the foreigner.

Holdings through foreign corporation

Whether a foreign corporation can be a USRPHC—expressed differently, whether the words "United States" refer "to real property" or "corporation"—is unclear. Subsection (c)(1)(A)(ii) of Section 897 which defines US real property interest includes in this term "any interest . . . in any domestic corporation"; on the other hand, Subsection (c)(4)(A) states that for the purpose of determining whether any corporation is a USRPHC the words "any corporation (whether foreign or domestic)" shall be substituted for "any domestic corporation" in paragraph (1)(A)(ii). Similarly, the statutory definition of the term in Subsection (c)(2) refers to "any corporation" whose property holdings satisfy the statutory requirement.

On balance it would seem that a foreign corporation can be a USRPHC. The question may not be of direct practical importance because the authentic interpretation of Section 897 in the Conference Report accompanying the Omnibus Reconciliation Act of 1980 (at page 187) is to the effect that gain on the disposition of stock in a foreign corporation is not subject to the tax; also, the taxation of gain realized by a foreign corporation from distributions of US real property is not dependent on the qualification of the foreign corporation as a USRPHC. The question may be clarified in forthcoming Regulations.

* Section 897(c)(5) prescribes that where one corporation holds a controlling interest (as defined in the Section) in another corporation, the assets held by the controlled corporation are treated as being held by the controlling corporation, in proportion to the fair market value of the stock of the controlled corporation held by the controlling corporation. This determination is made for the purpose of establishing whether "any corporation" is a USRPHC. This rule prevents a domestic corporation from avoiding USRPHC status by placing its US real property interests in a foreign corporation.

Distributions by foreign corporations

Gain realized by a foreign corporation upon the distribution to its shareholders of a US real property interest is subject to the tax. Taxable gain is measured by the difference between the fair market value of the interest at the time of the distribution and its adjusted basis in the hands of the corporation. This rule applies to current distributions in kind as well as to distributions in redemption or liquidation. Code Section 337 is specifically made inapplicable (Section 897(d)(2)). The purpose of the rule is to prevent a foreign investor from avoiding US tax where the buyer of the foreign corporation's shares liquidates the corporation in order to step up the basis of its assets to fair market value for depreciation purposes, etc. A buyer who acquires the shares will normally adjust the sales price for the capital gains tax payable by him.

The tax does not apply in the case of a carryover or substituted basis (i.e., where the basis of the property distributed in the hands of the recipient is the same as its basis to the corporation prior to distribution), increased by the amount of gain recognized to the corporation upon the distribution. Such a substituted basis applies, for example, in the case of certain corporate distributees.

Domestic corporations remain subject to the pre-1980 rules i.e., they do not recognize taxable income either on property that is sold within 12 months after the beginning of a complete liquidation (Section 337(a)), or distributed to the shareholders (Section 311(a)). Gain on the sale of shares of a domestic corporation not qualifying as a USRPHC also remains taxable under the pre-1980 rules. In this context, the place where title to the shares passes may be relevant.

Nonapplication of nonrecognition provisions

Section 897(e)(1) states that except as specifically provided in that Section, the nonrecognition provisions of the Code shall be inoperative except in the case of an exchange of a US real property interest for an interest the sale of which would be taxable. Accordingly, gain upon an exchange, by a foreign corporation, of a US real property interest for another US real property interest would remain exempt under Section 1031, whereas gain on an exchange of a US real property interest for a foreign real property interest would be taxable.

Returns and reporting requirements

New Code Section 6039C includes elaborate filing and reporting requirements that are briefly summarized below.

(1) A domestic corporation having one or more foreign shareholders at any time during a calendar year must file an information return if it was a USRPHC at any time during that year or any of the four preceding calendar years. This rule does not apply to a corporation whose stock was regularly traded on an established securities market at all times during the calendar year. The return must disclose the identity of all foreigners who were shareholders at any time during the year and it must include information on transfers of the corporation's stock to or from foreigners during the calendar year (Section 6039C(a)).

(2) A foreign corporation and a domestic or foreign partnership, trust or estate must file an information return if a foreigner held an interest in the entity at any time during the year and if the fair market value of that person's pro rata share of US real property interests held by the corporation exceeded $50,000 ("substantial investor"). The return must identify the substantial investor or investors and include certain other information.* The filing of the return is not required if the corporation furnishes security sufficient to cover any tax that may be payable (Section 6039C(b)). A foreign corporation which is unable to identify its substantial investors—e.g., because its stock is in bearer form—will probably be required to furnish security.

(3) A foreigner who is not engaged in a United States trade or business during a calendar year must file an information return if the fair market value of its United States real property interests at any time during that year amounts to $50,000 or more. The return is not required if the foreigner is obliged to file under the provisions summarized at (2), above. The return must identify the foreigner and the United States real property interests held by him (Section 6039C(c)).

The reporting requirements are effective for calendar year 1980, which for this purpose is considered to run from June 19 to December 31, 1980. Substantial penalties are provided in case of noncompliance.

Utilizing tax treaties

The new statutory rules override conflicting provisions of United States tax treaties as of January 1, 1985. A foreign investor resident in a country which has a favorable tax treaty with the United States may avoid the capital gains tax prior to that date. A foreign investor in a nontreaty country, or a country whose tax treaty with the United States is not sufficiently helpful, may be able to operate through a corporation domiciled in a country with a more attractive treaty.

Existing treaty exemptions continue to override the provisions of Code Section 897 until December 31, 1984. This benefit will terminate earlier if a treaty is renegotiated before that date. In no event can the effective date of the Code provisions be extended for more than 2 years after the revised treaty is signed (Omnibus Reconciliation Act of 1980 Section 1125). Subject to the time limitations mentioned, the present United States income tax conventions with Germany and the Netherlands may be helpful to foreign investors.

German Treaty

Gain on the sale of shares of a domestic corporation qualifying as a USRPHC and held by a German individual investor is exempt from US capital gains tax unless the investor is physically present in the United States for at least 6 months in the year of sale and the gain is a short-term gain, or the holding is effectively connected with a permanent establishment of the investor in the United States. Subject to the last-named qualification, gain from this source realized by a German corporation or GmbH is exempt.

The governments of the United States and the Federal Republic of Germany have entered into preliminary negotiations for a revision of the Income Tax Convention of 1954/1965.

* A substantial investor in a foreign corporation need not be a foreigner (Second 6039C(b)(4)(B)(ii).

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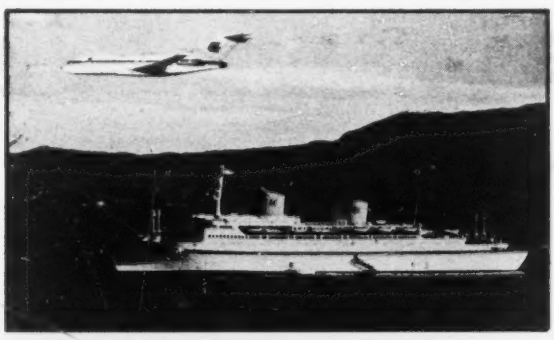

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How to Acquire a European Patent

H. Hilgers

Before addressing the question of how one acquires a European patent, it seems advisable to first explain what a European patent is. As a matter of fact, a European patent is the result of a development extending over twenty years. For the first time in 1949, some European politicians requested the creation of a European Patent Right. This initiative did not bear fruit until May 1969, when the governments of European states met together and created an inter-governmental conference for the preparations of the European Patent System. Finally, in October 1973, the European Patent Convention was ready, and was signed by a total of fourteen States. In November 1977, the European Patent Office commenced its operation in Munich. In June 1978, the first European patent applications were received, and one year later, the first applications were examined.

A European patent is a patent based on the European Patent Convention and granted by the European Patent Office, which is the legal institution of the European Patent Organization. The European patent shows similarity to the U.S. patent, but there are also considerable differences. The patent is based on one common patent law, which is valid in several Member States. One central patent office administers one patent application per invention, which is examined and which upon approval provides a patent right in several Member States. Here, already, the differences begin.

The United States of America forms an entity in terms of patent rights. This means, that a U.S. patent is granted for all the states of the United States of America. So, a European patent is called "European", but is not valid in all European States. At best, it may only be effective for those European States which support the European Patent Office and which in the following are called Member States.

The political background is the reason for that difference. The United States of America has been united for a long time. Europe still consists of a great number of independent states with their own legislature, jurisdiction and political systems. The European Community is the first step to a united Europe. There have been achieved already some results, and the European patent is one of them.

The following eleven States are Members of the European Patent Convention: Austria, Belgium, the Federal Republic of Germany, France, Italy, Liechtenstein, Luxembourg, the Netherlands, Sweden, Switzerland and the United Kingdom. These countries support the European Patent Office and, depending on the request, a European patent may be effective only for one, several or all of them. The eleven Member States cover the heart of Europe and represent an important market of about 270 million inhabitants.

Who can file?

A European patent application may be filed by any natural or legal person. Anyone, disregarding his home State, may use the European Patent System and file an application. A European patent application may also be filed by joint applicants. Applicants having their residence or their principal place of business in a Contracting State are free to correspond with the European Patent Office in order to promote their own applications. Others, for example U.S. applicants, must be represented by an intermediary and act through him before the European Patent Office in all proceedings.

The European Patent Office is located in Munich, just beside the German Patent Office. It has Branch Offices in The Hague, The Netherlands, and in West Berlin.

As usual, the basis for a patent is a patent application. It has to contain a request for the grant of a European patent, a description of the invention, one or more claims, perhaps drawings referred to in the description of the claims, an abstract and a Designation of Inventor form. The application must be kept in one of the official languages of the EPO, namely English, French or German. The official language once chosen becomes the language throughout the European proceedings. In the request, the respective Member States have to be designated in which the applicant wishes his invention to be protected. A designation of a Contracting State may be withdrawn at any time up to the grant of the European patent. However, there is no belated designation of a further state after the filing date. With the filing the official fees become due.

Procedure of the application

The filed European patent application, firstly, is examined in terms of formalities. It is checked whether all required parts of an application have been filed and therefore, a date of filing can be recorded. After that, a mandatory search begins, with which the relevant state of art shall be revealed. After 18 months from the filing date, the patent application is published, together with the Search Report. With the publication, a six months term begins, within which the applicant has to decide whether the application shall be examined or not. For the examination, additional official fees become due. An examination is carried out to ascertain whether the application meets the requirements of the Convention and the invention

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**Herr Hilgers practices German and International patent law in Munich, West Germany.*

is patentable. The invention is considered to be new if it does not form part of the state of the art. Additionally, the invention has to involve an inventive step. This requirement is regarded as fulfilled if the invention is not obvious to a person skilled in the art.

In the course of the examination, the Examiner issues Office Actions, submitting his observations and presenting his objections. The applicant is requested to respond within a set term. He may argue against the objections and amend the application. If the examiner is of the opinion that the application contains an invention, he grants a European patent. After the grant of a patent, a nine months period follows, within which anyone may file an opposition. The opposition can only be filed on the grounds that the subject matter of the patent is not patentable, the European patent does not disclose the invention in a manner sufficiently clear and complete, or the subject matter extends beyond the content of the originally filed application. In the opposition procedure, the objections of the opposing party are considered and, eventually, the invention again is examined. If it is concluded that the grounds for opposition prejudice the maintenance of the European patent, the same is revoked, otherwise the opposition is rejected. The decision may be appealed.

The opposition with respect to the appeal is the last common procedure in the life of a European patent, since after the grant the European patent is separated into a bundle of national patents of the designated Member States. Therefore the opposition is the last possibility of centrally attacking a European patent. Due to the great importance of this last step, it may be expected that European patents are strongly attacked by the competitors of the applicants.

Litigation and nullification

As mentioned, after the grant, a European patent is separated into the respective national patents, which in the case of infringement, each of which have to be enforced in the respective countries. There is no central litigation court for the Member States of the European Patent Convention. The same is true for the nullification. European patents may be nullified only before the national courts.

A European patent has in the several Member States the same validity, effect and character as a national patent of the respective Member State. The European Patent Convention only centralizes the creation of a patent up to the grant; afterwards "the children leave their mother" and become independent rights.

From the foregoing, it is clear that the Member States still have their old national patent systems and they shall exist also in the future. The applicant, therefore, can choose for each Member State whether the European route shall be followed or national applications shall be filed.

Comparison of costs

The experience of the European Patent Office has showed that on average seven States are designated per application. At the time of filing, one may make savings if, on the basis of those seven States, a European patent application is filed. When a patent is granted, the situation may already have changed. At that time in most of the Member States, a full translation of the text of the patent has to be presented. The costs of such translations usually are higher than in the national applications, since the translated text should correspond to the text of the granted patent. Therefore, certified translations are required. The costs for a European patent application covering five countries amount to approximately US$3,000,official and attorneys fees included. Additionally, US$1,500 may be required to cover the examination. The prosecution is difficult to predict but two Office Actions, each costing about US$500, may be expected. In the case of a grant, another US$500 are due. For the total prosecution of the patent up to the grant, a total cost may be expected of between US$5,000 and US$6,000. The costs for translations are not included, since they are not predictable. The European Patent Office will increase the official fees, either in 1981 or definitely in 1982.

Miscellaneous facts

The European Patent Office recently released some interesting figures on the structure of its business. In 1980, a total of 18,000 patent applications were received. For 1985, 23,000 applications are expected. This is not very much in comparison with 60,000 cases normally filed in one year with the German Patent Office. As a matter of fact, the number of the European cases is well below the expectations and predictions. At the moment, 42% of all applications belong to the chemical field, 34% to mechanical subject matter and 24% to electricity and physics. 40% of all

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Licenses and Investments

Licensing

Seeks licenses or other forms of cooperation to produce **ethanol from agricultural or forestry products** such as corn, wood, etc. or from organic waste products like grass, sugar beet leaves, straw, etc. Interested in continuous and batch process for small, mobile production plants and for larger stationary facilities. Would prefer production processes with non-sophisticated but highly efficient technologies, maximum ethanol yield, adequately flexible in the use of alternative raw materials and low energy consumption. Firm's current activities include the exploration and production of oil, gas, uranium and peat services for the mining, oil, construction industries and designing and construction of industrial plants, machinery and equipment. The firm has 1,100 employees and yearly sales of $400 million. Dr. Heinrich Grumpelt, C. Deilmann AG, Postfach 75, 4444 Bad Bentheim 1, West Germany.

Scrubbing, deburring and cleaning machines designed to deburr, scrub, rinse, and completely dry PC boards prior to further processing. Rolf Dieter Hafemeister, Rockstroh GmbH Muenchen, Ludwig-Thoma-Strasse 2A, D-8044 Unterschleissheim.

Cooperation

Production of winter feed for outdoor song birds made from beef suet. Firm seeks medium-size U.S. manufacturer with sufficient experience in the processing of beef suet for bird food in the states of New York, Washington, and Pennsylvania. Reportedly, firm has developed successfully its own technique and equipment for the manufacturing of bird food from beef suet, which it sells to leading supermarkets and department stores all over West Germany. Walter Hans, Owner/Mgr., Walter Hans Vogelfutterfabrikation. D-5400 Koblenz-Schlachthof.

Foaming of plastics for window frames. The aluminum reinforced window frames are coated with colored polyurethane. Also, the German company offers a suitable form of joint venture arrangement at its base to U.S. companies seeking to gain a foothold in the German and European markets. Herr Manfred Roth. Gen. Mgr., Roth Werke GmbH, Postfach 60. D-3563 Dautphetal 2 (Buchenau).

Sealing compound. This compound, applied with brooms and rollers, seals against humidity and corrosion. It is used inside of tanks, on roofs, walls, driveways, roadways. Mr. Thomann. Kaubit-Chemie Dinklage GmbH & Co Kg., Industriestrasse 2843, Dinlage.

Commercial dishwashers. This manufacturer of economically-priced side-loading dishwashers for small to medium-sized commercial establishments is interested in arranging a 50-50 U.S. joint venture. Juergen Winterhalter. Winterhalter Gastronom GmbH. Tettnanger-Str. 72, D-7996 Meckenbeuren/Wuertt.

Semi-worsted yarns used for carpet and textile wallpapers. This substantial German company offers to provide technical knowledge and financial participation. The U.S. firm should employ 60-150. Dr. Klaus M. Ris. Textilwerke Ahaus AG, 4422 Ahaus.

Investment

Renewable energy equipment and energy-saving devices. Firm wishes to invest directly or indirectly in U.S. companies engaged in the following product areas: a) solar collectors, absorption type; b) energy storage tanks; c) heat pipes; d) heating and combustion controls; e) heat pumps, air to water type; f) wind generators; g) photovoltaic cells; and h) related equipment. Interested firms should contact: Foreign Commercial Service, American Consulate General, Cecilienallee 5, 4000 Dusseldorf 30.

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applications were filed in the German language,46% in English and 14% in French.

As to the countries of origin, 67% of European patent applications stem from Member States. The breakdown is as follows:

30% Federal Republic of Germany
12% France
9% United Kingdom
7% Switzerland
3% The Netherlands

As to non-member States, 25% of all applications stem from the U.S. and 7% from Japan.

Regarding coverage of Member States in the European applications: the United Kingdom is designated in 91% of all applications, Germany and France each in 86%, Italy in 78%, the Netherlands in 72%, Belgium in 63%, Sweden in 60%, Switzerland and Liechtenstein in 59%, Austria in 46%, and Luxembourg in 31%.

The number of Contracting States shall slowly increase in the future. Denmark is expected to be the next country to ratify the European Patent Convention. Ireland and Greece are also expected to ratify the Convention. With the enlargement of the Common Market, the entry of Spain and Portugal seems to be possible. However, so far no concrete realization is visible.

Parallel to the creation of the European Patent Convention, a second patent system has been worked out, which shall harmonize not only the grant but also the validity and legal effect of a European patent for all members of the European Community. However, this project has also not yet been realized.

At the present time, an applicant can only choose two ways, namely the European route through the European Patent Office in Munich and the national route in filing national patent applications in the respective national Patent Office of the respective States. Each route has its own advantages and drawbacks. In the European Patent System, the patent examination procedure is centrally handled. The national patent systems are sometimes simpler, since no search or substantive examination takes place, whereby patents are more or less registered within a short time. The situation is confusing for the applicant, since he can choose between different patent systems and different kinds of protection in various States. However, the chances of the applicant to acquire for a certain country exactly that kind of protection he wants have been increased. ■

German-American Economic Review in Figures

	Federal Republic of Germany					United States				
	1979	1980	1980-1981 Dec.	Jan.	Feb.	1979	1980	1980-1981 Dec.	Jan.	Feb.
FOREIGN TRADE (in mil.$)										
Imports	159,646	187,933	14,833	14,044	13,690	207,077	241,461	21,436	23,194	21,922
Exports	171,801	192,901	15,345	13,584	14,093	181,646	220,684	19,251	18,825	19,764
Balance on merchandise trade	12,158	4,968	512	−460	403	−25,431	−20,838	−2,251	−4,369	−2,158
U.S.-GERMAN TRADE (in mil.$)										
U.S. imports from Germany	11,337	11,821	1,011	857	810	10,955	11,681	896	996	758
(+)(−) % from previous year	12.9	4.3	−1.5	−21.4	−24.1	10.0	6.6	−16.3	0.7	−23.7
U.S. exports to Germany	11,081	14,161	1,117	1,036	1,071	8,272	10,732	810	821	848
(+)(−) % from previous year	27.0	27.8	9.3	−21.7	−15.7	21.4	29.7	−1.2	−13.1	−10.4
Balance on U.S.-German trade	256	−2,340	−106	−179	−261	−2,683	−949	−86	−175	90
INDUSTRIAL PRODUCTION										
(+)(−) % from previous year	5.4	−0.4	−10.2	−3.0	−0.5	4.4	−3.5	−1.0	−0.7	−0.7
Iron and steel	9.0	−3.3	−11.1	−7.6	−1.8	0.0	−18.9	−2.8	0.7	4.3
Machines, exc. elec.	4.8	3.4	−10.2	9.4	6.6	6.5	−0.7	−2.5	1.0	0.7
Electrical machinery and equipment	1.1	3.2	−6.5	−1.1	0.2	9.8	−1.3	−3.7	−2.2	−2.1
Chemicals	6.7	−4.0	−8.1	−2.6	0.5	6.6	−2.4	0.9	0.5	1.6
Road motor vehicles	7.5	−4.6	−14.9	−8.3	2.5	−5.8	−25.7	−7.8	−5.7	−11.9
Textiles	3.8	−0.9	−13.4	−11.6	−8.7	4.6	−5.7	−10.0	−7.3	−7.8
Apparel	−0.1	−5.1	−13.1	−0.7	−5.1	−2.6	−4.4	−4.6	−4.3	−5.9
LABOR MARKET										
Population (in mil.)	61.4	61.6	—	—	—	—	227.6	228.6	228.8	229.0
Civilian labor force (in 1000)	25,573	25,795	—	—	—	102,908	104,719	105,067	105,543	105,081
Unemployed (in 1000)	876	889	1,118	1,309	1,300	5,943	7,448	7,785	7,847	7,754
Unemployment rate (in %)	3.8	3.8	4.8	5.6	5.6	5.8	7.1	7.4	7.4	7.3
Gross hourly wages in manufacturing (in DM or $)	12.55	13.41	—	—	—	6.69	7.27	7.63	7.68	7.71
(+)(−) % from previous year	5.6	6.9	—	—	—	8.4	10.9	9.5	10.3	10.3
PRICES (+)(−) % from previous year										
Consumer Price Index	4.1	5.5	5.5	5.8	5.5	11.3	13.5	12.4	11.7	11.3
Producer prices for ind. products	4.8	7.5	7.4	6.8	6.7	12.9	16.1	13.0	11.1	10.9
CURRENCY EXCHANGE RATES (avg.)										
Value of $1.00 in DM	1.8330	1.8158	1.9727	2.0076	2.1436					
Value of DM 1.00 in $						0.5456	0.5509	0.5077	0.4977	0.4676

	1979	1980	1980–1981 II	III	IV	I	1979	1980	1980–1981 II	III	IV	I
NATIONAL ACCOUNTS												
Gross National Product at current prices (in bil. DM or $)	1,400.4	1,497.5	1,465	1,523	1,608	—	2,414	2,626	2,565	2,637	2,731	2,827
(+)(−) % from previous year, real terms	4.5	1.8	1.5	1.1	−0.7	—	3.2	−0.2	−0.7	−1.1	−0.3	0.9
Balance on current account (in mil. DM or $)	−10,142	−29,052	−6,830	12,669	−4,409	—	−705	118	−2,441	4,493	687	—
Monetary reserves (in mil. $)	60,455	53,141	57,241	56,717	53,141	—	18,950	26,760	21,920	23,000	26,760	—
Direct investment, cumulative at period end (in mil. DM or $)												
Direct investment abroad	66,002	74,162	70,816	—	74,162	—	192,648	—	—	—	—	—
—German investment in the U.S.	12,283	15,664	14,487	—	15,664	—	192,648	—	—	—	—	—
—U.S. investment in Germany							13,530	—	—	—	—	—
Foreign direct investment	55,242	57,616	—	—	57,616	—	52,260	—	—	—	—	—
—U.S. investment in Germany	20,140	20,312	—	—	20,312	—						
—German investment in the U.S.							5,004	—	—	—	—	—

Sources: Statistisches Bundesamt; Deutsche Bundesbank; Bundesministerium fuer Wirtschaft; International Monetary Fund; U.S. Department of Commerce; U.S. Department of Labor; Federal Reserve System

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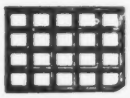

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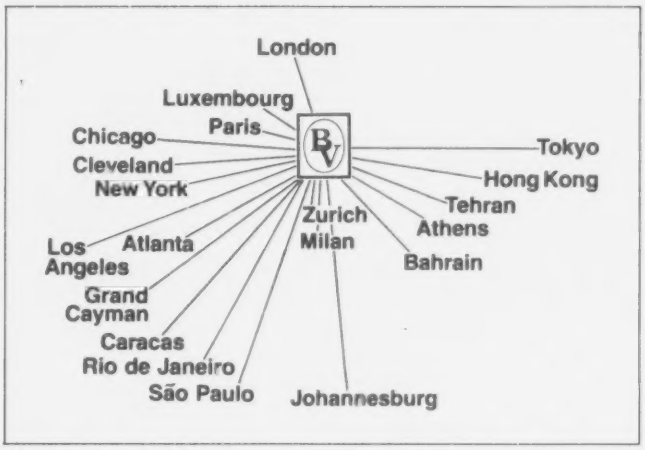

Bayerische Vereinsbank Group	31.12.1980
Total Assets	91,595
Due to Customers and Banks	37,721
Due from Customers	22,279
Bonds Issued in Long Term Loan Sector	48,807
Lendings in Long Term Loan Sector	49,373
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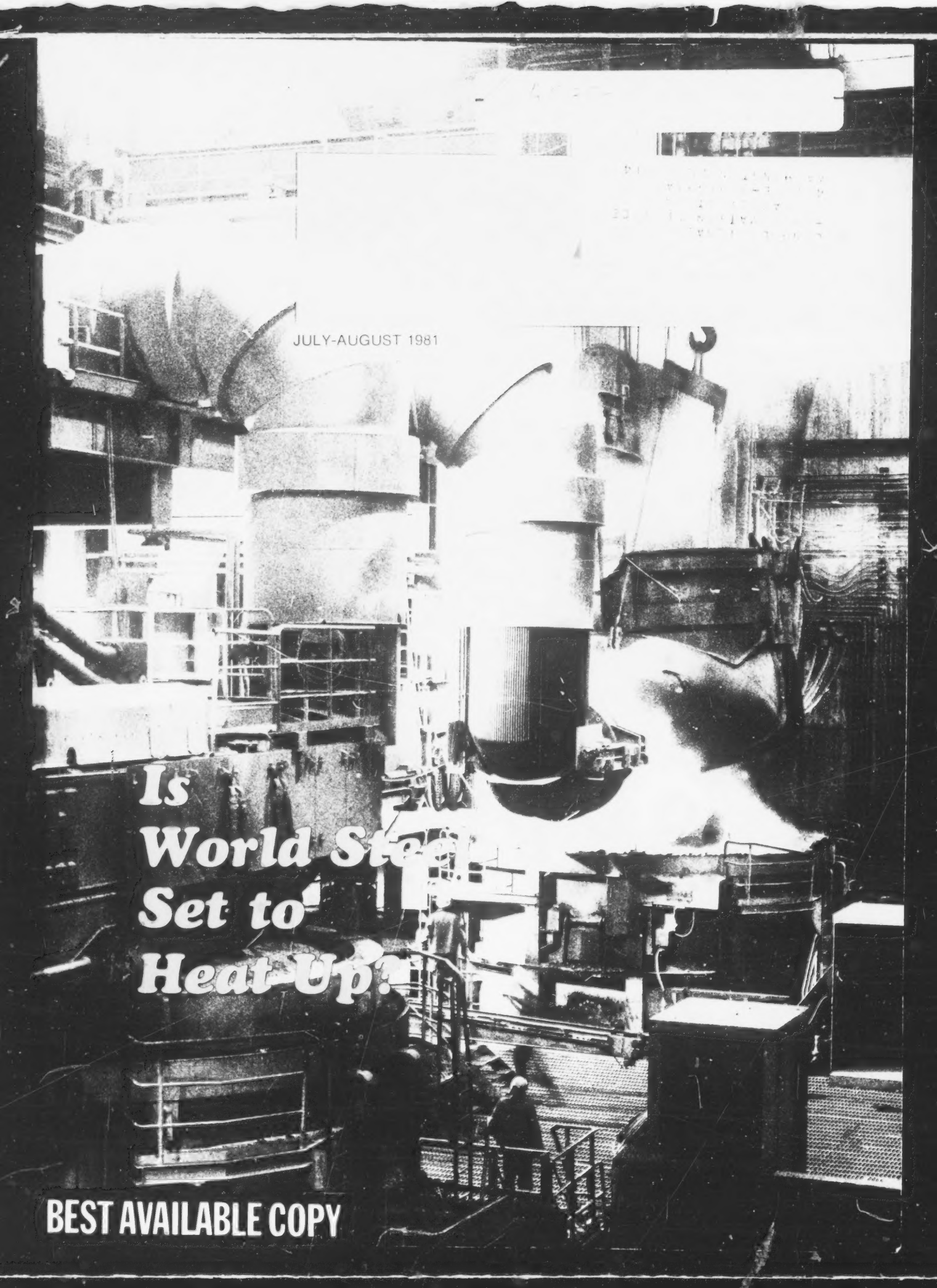

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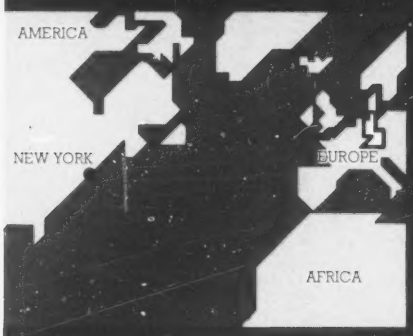

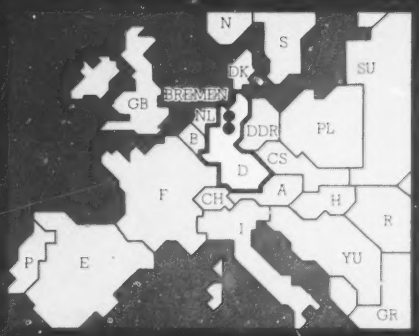

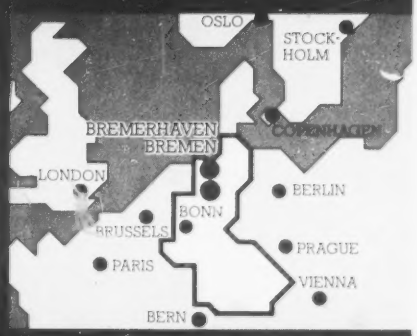

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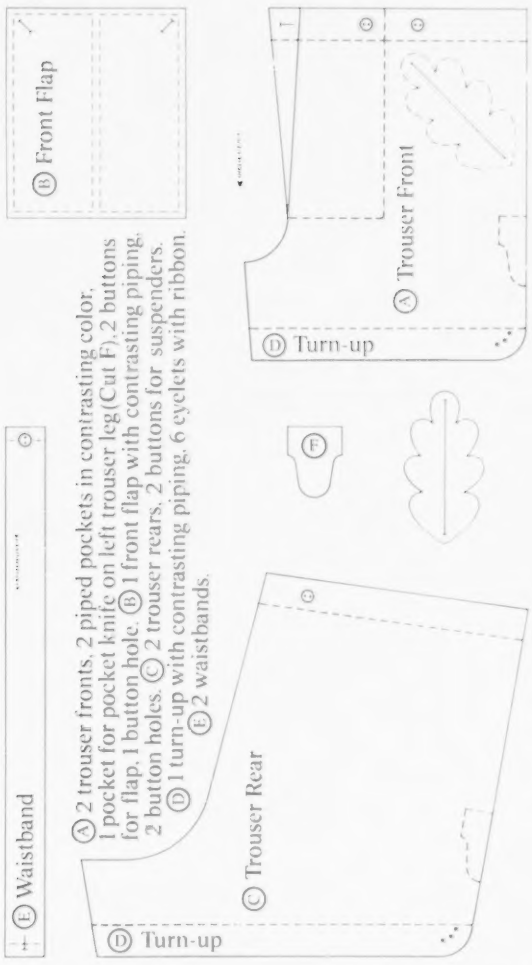
Ⓑ Front Flap
Ⓐ Trouser Front
Ⓓ Turn-up
Ⓕ
Ⓐ 2 trouser fronts, 2 piped pockets in contrasting color, 1 pocket for pocket knife on left trouser leg (Cut F), 2 buttons for flap, 1 button hole. Ⓑ 1 front flap with contrasting piping, 2 button holes. Ⓒ 2 trouser rears, 2 buttons for suspenders. Ⓓ 1 turn-up with contrasting piping, 6 eyelets with ribbon. Ⓔ 2 waistbands.
Ⓔ Waistband
Ⓒ Trouser Rear
Ⓓ Turn-up

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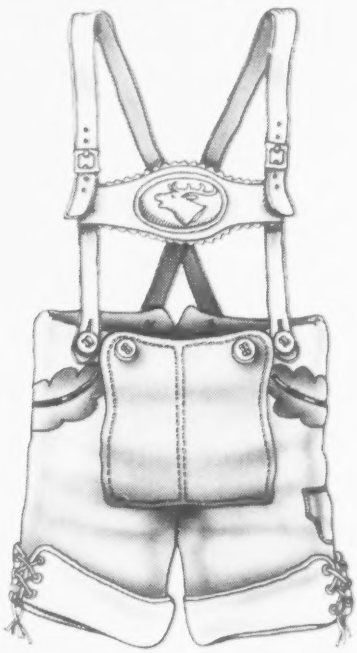

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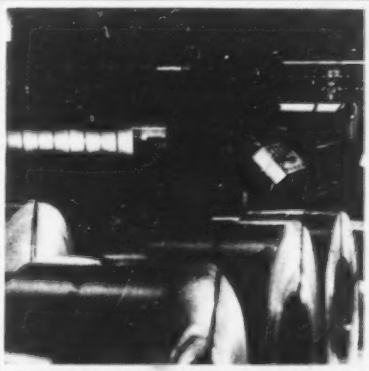
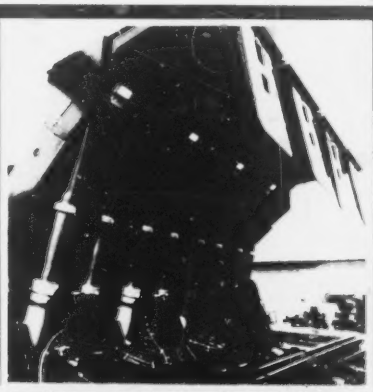


Our Activities



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VOL. 35 NO. 4 JULY/AUGUST

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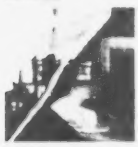

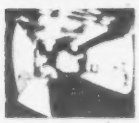

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GATN

German-American Trade News

Werner Walbrol
Executive Director

Richard Jacob
Editor

Benigna Kirsten
Advertising

Magdalena Wolf
Circulation

Photo credits
Cover: German Information Center
Inside: American Iron and Steel Institute; Japan Steel Information Center; German Information Center

The **German American Trade News** is published bimonthly by the German American Chamber of Commerce, Inc., 666 Fifth Avenue, New York, New York 10103 and also distributed at regional Chambers in Atlanta; Chicago; Houston; Los Angeles; San Francisco and Washington, D.C. Subscriptions in the United States and Canada $9.00 per year, $18.00 for 3 years; other countries $12.00 yearly, overseas airmail $24.00 per year. Single copy price $1.50. For change of address, please give old as well as new address including zip code (if possible, enclose address label from magazine). Allow 4-6 weeks for change.

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Printed by Waldon Press, Inc., 216 West 18th Street, New York, NY 10011. Controlled circulation paid at New York, New York.

Address all correspondence and inquiries to German American Chamber of Commerce, Inc., 666 Fifth Avenue, New York, New York 10103. Tel.: (212) 974 8830

Chamber Commentary

Free trade and birds

"Good fences make good neighbors", claimed the American poet Robert Frost. Perhaps. But what may appear to be common sense to a Vermont farmer should confound the enlightened self-interest of nations. In the matter of international trade and commerce, the case for fences has been discredited by historical experience. Unfortunately, the past also teaches us that nations, like individuals or businesses, are dangerously prone to sacrifice long-term benefits to short-term expediency.

There can be little doubt that free trade, like the bald eagle, is an endangered species. And, like the American national symbol, free trade is imperiled not so much by frontal assault as by poachers. While it doesn't possess the impeccable virtue of motherhood, free trade has served us so meritoriously over the past three decades that its opponents dare not propose to kill the bird; clipping its wings is safer.

The flanking maneuver is essentially being conducted behind a smokescreen of euphemism. Whether under the guise of "orderly marketing agreements" or "managed trade", the final effect is a distortion of trade flows. Admittedly, protectionism is not yet an overriding factor, but the pressures are undeniably growing. The historical and current genesis of protectionism is unemployment. Jobless rates now range from just over 12 percent in Great Britain to under 5.5 percent in the Federal Republic, the latter being some 45 percent higher than in July 1980 and at the highest level since 1954. The resulting incentives to building up trade barriers may stem from humanitarian concerns but are nonetheless misguided.

By generally accepted statistical measurements, world trade has grown over tenfold in the past quarter century, a rate far in excess of the domestic expansion of most economies. No contraction in global commerce on the order of the collapse of the 1930's is expected, but recent trends have been grim. The volume of goods traded rose 6 percent in 1979 and by barely 1 percent last year. When this year's figures are in, volume will probably show a decline.

A host of disputes between America and the European Common Market continues to fester. There is a European challenge to the trigger-price mechanism and American threats of retaliation for subsidized Common Market farm exports; and protracted skirmishes over textiles, autos and export credit subsidies have been written into the crisis management agenda of trade officials. Cool heads and vision must prevail. Otherwise the goose that lays the golden eggs may join the American bald eagle as a threatened bird.

German-American Economic Review in Figures

	Federal Republic of Germany					United States				
	1979	1980	1981			1979	1980	1981		
			Feb.	March	Apr.			Feb.	March	Apr.
FOREIGN TRADE (in mil. $)										
Imports	159,646	187,933	13,690	16,076	14,010	207,077	241,461	21,907	20,937	22,262
Exports	171,801	192,901	14,093	16,012	15,539	181,646	220,684	19,764	21,434	19,818
Balance on merchandise trade	12,158	4,968	403	-64	1,529	-25,431	-20,838	-2,158	497	-2,444
U.S.-GERMAN TRADE (in mil. $)										
U.S. imports from Germany	11,337	11,821	809	948	946	10,955	11,681	758	970	1,011
(+)(−) % from previous year	12.9	4.3	-24.2	-10.0	-12.7	10.0	6.6	-23.7	-15.1	-8.2
U.S. exports to Germany	11,081	14,161	1,069	1,277	1,084	8,272	10,732	848	1,006	844
(+)(−) % from previous year	27.0	27.8	-15.8	7.4	-9.5	21.4	29.7	-10.4	-3.1	-15.9
Balance on U.S.-German trade	256	-2,340	-260	-329	-138	-2,683	-949	90	36	-167
INDUSTRIAL PRODUCTION										
(+)(−) % from previous year	5.4	-0.4	-0.5	-5.5	-2.6	4.4	-3.5	-0.7	0.1	3.0
Iron and steel	9.0	-3.3	-1.8	-5.8	-12.8	0.0	-18.9	4.3	1.4	—
Machines, exc. elec.	4.8	3.4	6.6	0.8	8.4	6.5	-0.7	0.7	2.4	5.2
Electrical machinery and equipment	1.1	3.2	1.2	-4.5	-0.9	9.8	-1.3	-2.1	-1.1	0.9
Chemicals	6.7	-4.0	0.3	0.8	-0.2	6.6	-2.4	1.6	2.0	—
Road motor vehicles	7.5	-4.6	2.1	-2.3	-4.1	-5.8	-25.7	-11.9	-1.9	13.7
Textiles	3.8	-0.9	-8.4	-14.4	-8.6	4.6	-5.7	-7.8	—	—
Apparel	-0.1	-5.1	-4.5	-9.3	-3.6	-2.6	-4.4	-5.9	—	—
LABOR MARKET										
Population (in mil.)	61.4	61.7	—	—	—	—	227.6	229.0	229.1	—
Civilian labor force (in 1000)	25,573	25,795	25,597	—	—	102,908	104,719	105,681	106,177	106,722
Unemployed (in 1000)	876	889	1,300	1,210	1,146	5,943	7,448	7,754	7,764	7,746
Unemployment rate (in %)	3.8	3.8	5.6	5.2	4.9	5.8	7.1	7.3	7.3	7.3
Gross hourly wages in manufacturing (in DM or $)	12.55	13.41	—	—	—	6.69	7.27	7.73	7.79	7.88
(+)(−) % from previous year	5.6	6.9	—	—	—	8.4	10.9	11.2	10.3	10.8
PRICES (+)(−) % from previous year										
Consumer Price Index	4.1	5.5	5.5	5.5	5.6	11.3	13.5	11.3	10.6	10.0
Producer prices for ind. products	4.8	7.5	6.7	7.0	6.8	12.9	16.1	10.9	11.3	11.6
CURRENCY EXCHANGE RATES (avg.)										
Value of $1.00 in DM	1.8330	1.8158	2.1436	2.1087	2.1602					
Value of DM 1.00 in $						0.5456	0.5509	0.4676	0.4750	0.4622

	1979	1980	1980 — 1981				1979	1980	1980 — 1981			
			II	III	IV	I			II	III	IV	I
NATIONAL ACCOUNTS												
Gross National Product at current prices (in bil. DM or $)	1,400	1,497	1,465	1,523	1,608	1,431	2,414	2,626	2,565	2,637	2,731	2,853
(+)(−) % from previous year, real terms	4.5	1.8	1.5	1.1	-0.7	-2.0	3.2	-0.2	-0.7	-1.1	-0.3	1.0
Balance on current account (in mil. DM or $)	-9,644	-29,832	-7,228	-12,670	-4,790	-9,138	-1,414	3,723	-545	4,975	1,390	3,087
Monetary reserves (in mil. $)	60,455	53,141	57,241	56,717	53,141	56,614	18,950	26,760	21,920	23,000	26,760	30,410
Direct investment, cumulative at period end (in mil. DM or $)												
Direct investment abroad	66,002	74,162	70,816	—	74,162	—	192,648	—	—	—	—	—
—German investment in the U.S.	12,283	15,664	14,487	—	15,664	—						
—U.S. investment in Germany							13,530	—	—	—	—	—
Foreign direct investment	55,242	57,616	—	—	57,616	—	52,260	—	—	—	—	—
—U.S. investment in Germany	20,140	20,312	—	—	20,312	—						
—German investment in the U.S.							5,004	—	—	—	—	—

Sources: Statistisches Bundesamt, Deutsche Bundesbank, Bundesministerium fuer Wirtschaft, U.S. Department of Commerce, U.S. Department of Labor, Federal Reserve System, International Monetary Fund

Trade Fairs

Heimtextil '82

The Heimtextil '82 — International Trade Fair for Home and Household Textiles — will be taking place in its accustomed coverage and dimensions from 13 to 17 January 1982 on the Frankfurt exhibition grounds. Around 1,150 exhibitors will be displaying their latest collections on an area of around 82,500 sq. m. More than half of the firms exhibiting here come from abroad, representing 35 difference countries from Europe and overseas. The strongest contingent will be made up of British firms (120), followed by exhibitors from Italy (68), Switzerland (58), Belgium (44), France (43), Austria (33) and the Netherlands (30).

An additional central product offer has been formed from the home textiles ranges: the manufacturers of textile wall coverings and wallpapers, whose offer has expanded steadily in recent years and was distributed over different halls, have now been collected together in one area. This facilitates the specific review of this branch for the trade buyer; at the same time, the concentration of pertinent ranges which has always been pursued at the Heimtextil is decisively advanced, which is precisely in the interests of a rationally organized visit to the Fair.

A further "innovation" for the Heimtextil '82 follows on the first-time participation of international design schools last year and involves the presentation of designers expected to come from several nations.

Interstoff wrap up

The 45th Interstoff was quite plainly more successful than had been expected. 80% of exhibitors were satisfied with the sampling activity of potential German customers and as many as 85% in the case of interest from abroad, figures which emphasize the unanimous view taken of this fair's progress. These are percentage rates which top those at last spring's events by 6 and 7 percent respectively. The result was also clearly beyond the forecasts made prior to the opening of the Fair. Even the expected number of visitors of 20,000 was fully surpassed, with an unchanged proportion of foreign visitors amounting to 60%.

The first place among visitors from all over the world was occupied by France, followed by Great Britain, the Netherlands, Japan, Italy, Switzerland, Belgium, Austria, Spain, Denmark, Sweden, Finland, the USA and — with a considerable increase in attendance — Greece. Altogether 75 different countries were represented.

The trade buyers worked intensively and with very specific objectives. It was of course the exhibitors' collections which made this possible, with total exploitation of all possible uses. There was indeed a great deal of *mutual* praise to be heard between buyers and exhibitors. A wealth of offer palettes was at hand for all tastes and sections of the clothing trade; the most recent technical achievements in textile production were also offered, making it possible to do jus-

tice to the higher standards demanded by consumers in all genres.

Telecommunications Congress

TELECOM GERMANY '81, Congress for Telecommunications in Business and Industry, is scheduled for the 4th to 6th November 1981 in conjunction with the International Telecommunications Fair (IFCOM) in Cologne. The central theme of TELECOM GERMANY '81, which is organized by Deutsche Telecom e.V., will be the usefulness of telecommunications to users. The aim is to present an overall picture and provide comprehensive information on all aspects of business telecommunications. The congress will therefore constitute an up-to-the-minute forum for information, technical discussion, consultation, exchange of experience and contact with users, advisers, post office officials, manufacturers and distributors as well as scientists and researchers. At the same time it will be a central meeting-place for managers, engineers, businessmen and organizers from the various branches of industry.

The congress will start on Wednesday, 4th November 1981 with a series of talks, delivered to the full assembly of delegates, about technical aspects of business telecommunications in the future. In the afternoon of 4th November and throughout Thursday, 5th November 1981, there will be a number of symposia, which will run concurrently. The congress will end on Friday, 6th November 1981 with talks to the full assembly of delegates on political aspects of telecommunications followed by a panel discussion and opportunity to exchange experiences, which may only be attended by genuine users.

Cologne '81

The Federal Association of Swimming Pool, Sauna and Water Technology (BSSW) estimates that there are about 310,000 private swimming pools installed throughout West Germany and expects this figure to grow by about 16,000 by the end of 1981.

The ε+b — 7th International Exhibition of Sports Facilities and Swimming Pools and international congress — which is to be held in Cologne from 28th to 31st October 1981, offers a complete overview of new developments in the field of

swimming pool technology and equipment. On the theme of "Energy saving and private swimming pools" the 7th s+b will present a whole range of products, ideas and information.

According to the BSSW, a swimming pool using energy-saving facilities costs no more than in the past when energy was much cheaper. Modern technology has made it possible to save energy not only in private indoor pools, for example, but throughout the entire home. An insulated house of generous proportions with its own indoor swimming pool equipped with modern technological facilities uses less energy than a normal single-family house which is not thermally insulated. Private swimming pools, even heated pools, do not therefore waste energy.

SPOGA survey

36 percent of all young Germans between 16 and 22 years have already paddled their own inflatable rubber dinghies, 18 percent have already paddled their own paddle boats or canoes. 5 percent have sailed their own boats, and 17 percent have been actively engaged in surfing. The percentage of girls and young women who have rowed rubber dinghies and surfed is nearly the same as the figure for their male counterparts.

These figures are part of the result of a sample enquiry into the sporting leisure time activities of 16-22 year-olds in the Federal Republic of Germany and West Berlin which the IJF — Institut für Jugendforschung (Institute for Youth Research), Munich, carried out for the Köln Messe on the occasion of the 23rd SPOGA Cologne 1981 (12th-15th September). The enquiry was carried out in April 1981.

According to the Federal Bureau of Statistics, there were 6,896,000 juveniles between the ages of 16 and 22 living in the Federal Republic of Germany and West Berlin on 31st December 1979. 9 percent of the 16-22 year olds have been surfing for some time, a total of 15 percent of this age range regularly go boating in their own boats.

31 percent of 16-22 year olds today would like to sail their own boats in future. 37 percent would like to do windsurfing in the future. 11 percent of those who have not yet boated in inflatable rubber dinghies or paddle boats intend to take up these sporting activities in the coming year.

Four percent of the juveniles intend to spend DM 1,775 on average on windsurfing equipment in the next two years. Another four percent of young Germans in the age range the enquiry deals with plan to spend DM 1,000 on sailing in their own boats, DM 244 on boating in an inflatable rubber dinghy, and DM 550 on boating in a paddle boat and canoeing by 1983. On a percentage basis, windsurfing and sailing are currently the most popular student activities of this kind, pupils favor inflatable rubber dinghies, while paddle boats and canoes respectively are equally popular at all levels of education.

The water sport center of the SPOGA in Hall 1 ground floor and in Halls 4 and 5, proved to be particularly expansive at the 1980 SPOGA. 245 firms, 161 of them foreign, presented their range of goods. For the 23rd SPOGA Cologne 1981 a similar range by firms from 30 countries is anticipated. The results of the present sample enquiry should be of great interest to the exhibitors at this SPOGA center. ■

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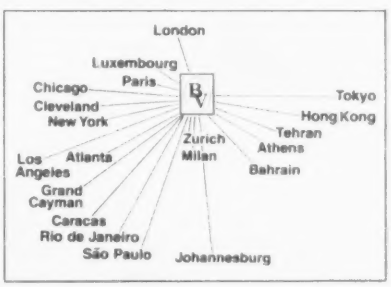

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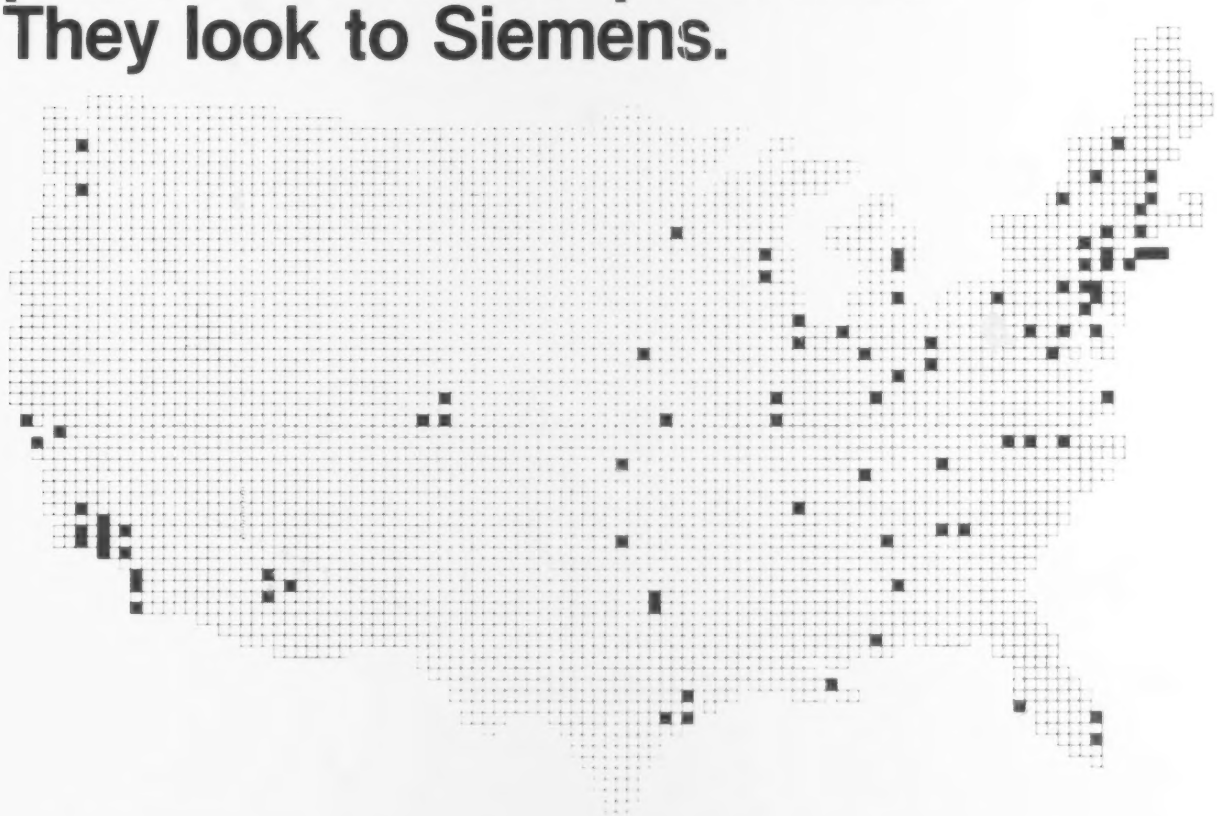

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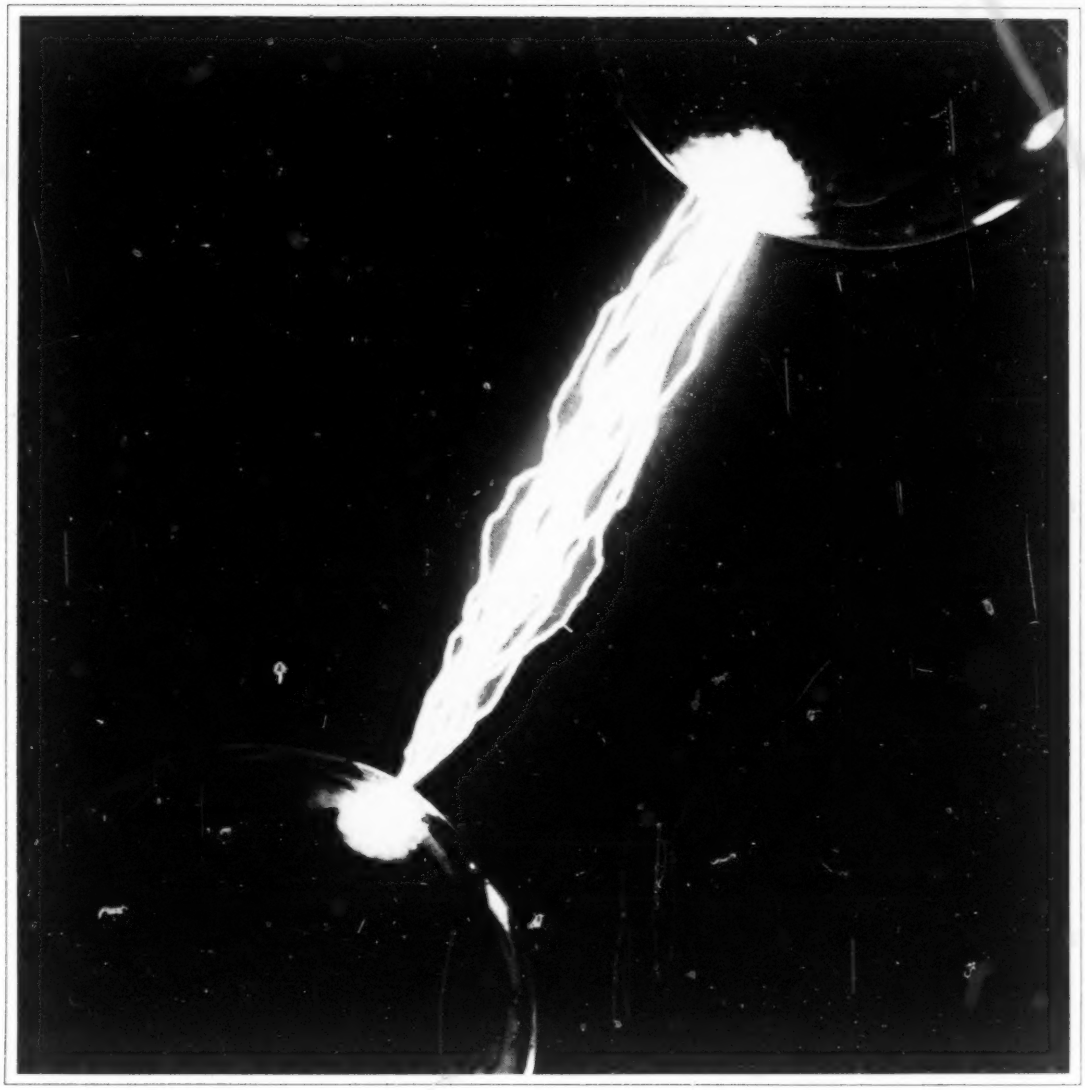

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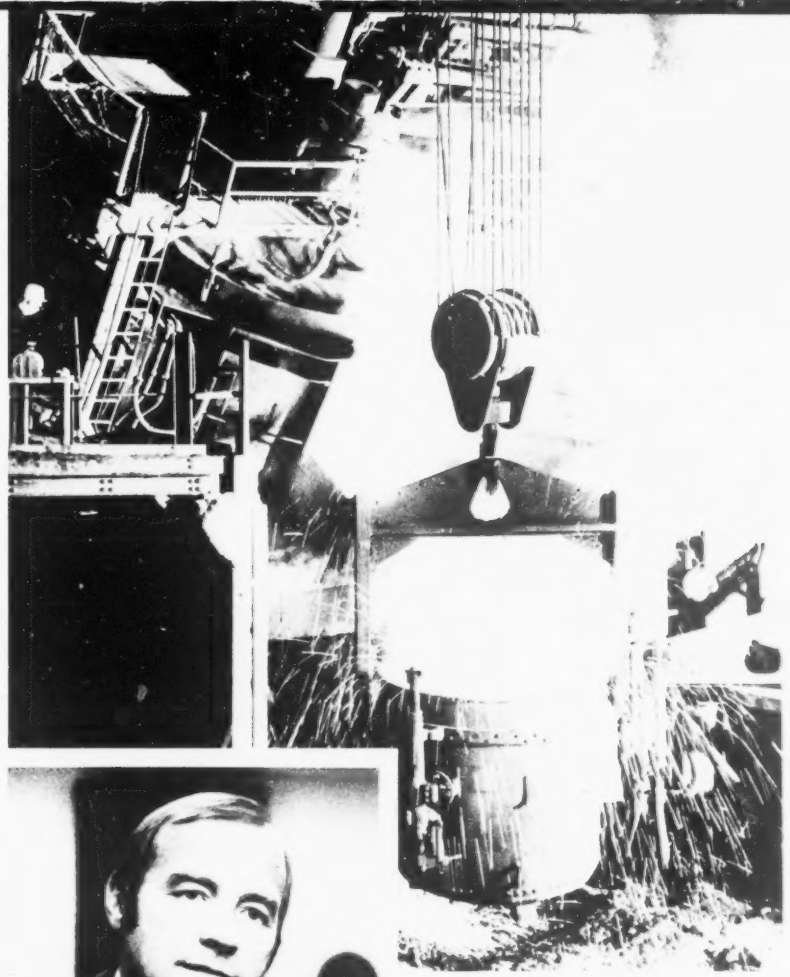


Is World Steel Set to Heat Up?

Dr. Willy Korf

This article is excerpted from a speech delivered by Dr. Korf to the International Scrap Industry on June 3 in Monte Carlo. Dr. Korf is President of Korf-Stahl AG, Baden-Baden, West Germany.

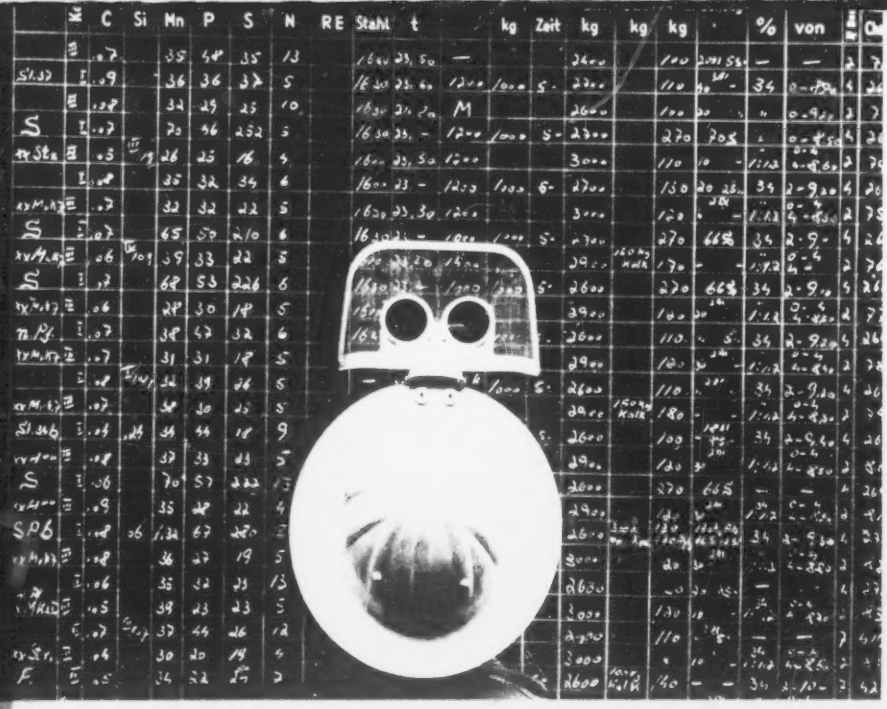
In the industrialized countries steelmaking is still an important criterion of industrial growth, and it will initiate industrialization in the developing countries to an increasing extent. Despite the present crisis in the European steel industry, which has its own specific causes, there will be a world-wide rise in steel consumption simply as a result of the rapid growth in world population, which is taking place primarily in the developing countries. This means inevitably that these countries will play an increasingly important role in the world steel industry.

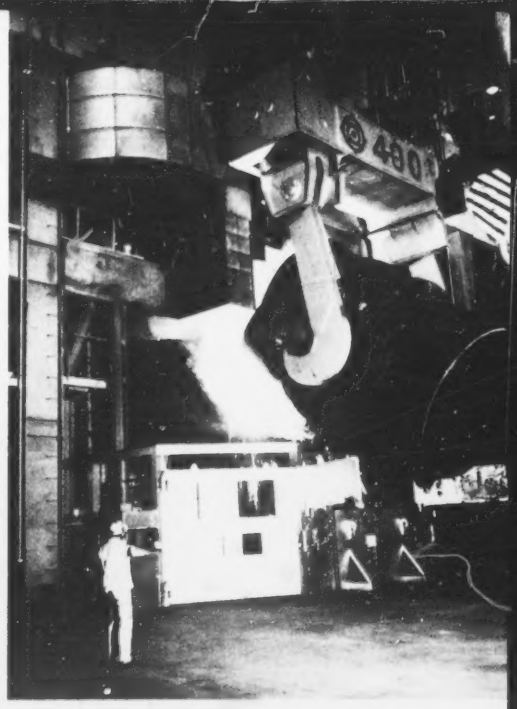
World steel consumption rose by an average of 2.8% per year between 1960 and 1980. The projections for the next ten years — including that of the OECD — range from 2.5 to 4% average growth per year. On the basis of historical values it is possible to predict with some certainty that steel consumption growth will be about 1% above population growth, which will not be less than 1.5% per year. Let us therefore assume a worldwide growth rate of 2.5% annually, which is a very conservative estimate.

The developing countries' steel consumption will grow at above-average rates of 5 to 8% per year, meaning that the industrialized countries' growth rates will have to be well below average; rates of around 1% are forecast for the USA and Europe.

In terms of figures, the predicted growth rates imply a probable worldwide steel demand, and hence steel production, of one billion tons in only ten years from today or 300 million tons more than were produced last year.

What is the relationship between supply and demand in the world steel market? Crude steel capacity worldwide can be estimated at around 800 to 850 million tons at the present time, although capacity statistics, especially European ones, must be treated with great caution. This is connected with the current steel crisis in the European Economic Community and the intervention of the European Commission in the form of production quotas in accordance with Article 58 of the European Coal and Steel Community Treaty. As these quotas are based on capacity, the countries and companies concerned try to give as high a reference as possible in order to maximize their production. It is therefore probable that the published capacities and hence the overcapacities in Europe are exaggerated. This is exemplified particularly clearly by the Federal Republic of Germany, which according to the statistics has a capacity





of 69 million tons a year, although any expert knows that no more than 50 million tons could be produced per year even during a steel boom.

Worldwide there is not in fact any overcapacity, apart from Japan, which has a reserve capacity of 20 million tons per year. This is not felt by the market, however, because, being disciplined, the Japanese steel industry has mothballed the facilities not currently needed. The United States could not meet its steel demand without imports, and the other steel-producing countries, chiefly the developing countries, are still dependent on imports, i.e., their own production is not sufficient to meet demand.

A growth in worldwide capacity of 1.2% per annum is projected for the next few years. This projection takes account of the fact that numerous obsolete facilities will be shut down, especially in Europe and the USA, due to their outdated technology.

The disproportion between the estimated steel consumption growth rate of 2.5% and the development of production capacity of 1.2% means that the two curves will inevitably intersect in the near future. This could happen as early as 1983, by which time it will be clear that the steel industry has not been keeping in line with the market; the greater demand will lead to excesses similar to the ones we are experiencing during the present crisis, which is mainly limited to Europe, but of the opposite kind. The cause of this crisis is obvious; it is simply that 70% of the European steel industries are nationalized or dependent on government subsidies and are therefore no longer managed according to the rules of the competitive free enterprise system. This has resulted in totally distorted competition since the beginning of the European steel crisis which is exported via dumping prices to other countries, e.g., the USA.

The switch to a sellers' market will give a boost to the entire steel industry, including the related raw materials industry, and thus attract private investment capital once more, which is needed to introduce innovative technologies and to modernize the steel industry. Quite apart from the vast capital spending involved, the construction of new facilities will not be able to keep pace with the rise in demand due to the problems associated with building new industrial plants today, such as anti-pollution regulations.

Electric steel-making

I would now like to say something about the development of electric steel plants, which has been especially rapid in the last ten years. Electric steel production has undergone a boom, both in terms of technology and economic importance. Electric metallurgy has gained a larger and larger share of the market from conventional techniques involving blast furnaces and the LD process, while the oxygen converter steel plant has almost completely replaced the Bessemer converter and the open-hearth steel plant (apart from the COMECON countries, where open-hearth steel plants are still common). Thus in 1980 electric steel production already accounted for over 20% of world crude steel production or almost 150 million tons!

According to the estimates of various experts, the proportion of electric steel production will rise by 50% to over 30% of total world steel capacity by 1990 and its volume will double to almost 300 million t.y.

Direct reduction has an important role to play in the creation of electric steel capacities, especially in countries *without* adequate scrap supplies, such as Venezuela, Trinidad, Argentina, Nigeria, Qatar, Iran and in the near future Saudi Arabia, Libya and Egypt.

Moreover, there has been a significant increase in the size of electric arc furnaces for mass steel production by comparison with the typical mini-steel plant. Modern high-performance electric arc furnaces can take charges weighing up to 350 t, i.e., larger than most oxygen con-

MAJOR STEEL-PRODUCING PROCESSES (1980)

	Basic oxygen process	Electric steel process	Open-hearth process
USA	61%	27%	12%
Japan	77	23	0
South Korea	71	29	0
Italy	42	55	3
Spain	49	46	5
Total EEC	71	26	3

verters.

I would like to comment in passing on the significance of the continuous casting process, which was only applied to 25% of steel production worldwide in 1980: 33% in the EEC, 20% in the USA and 60% in Japan. It is estimated that by 1990 over 50% of world steel production will be continuous-cast. At the same time continuous casting techniques have been increasingly improved in regard to yield, productivity and quality. Casting rates have been stepped up and the quality range of continuous-cast material has been extended by vacuum treatment and ladle metallurgy.

Finally, the new charging material, directly reduced iron (DRI), has released electric steel producers from complete dependence on scrap. In addition, it is possible to produce steel grades today with the help of DRI which at one time could only be produced by integrated steel plants using blast furnaces.

There are many indications that steel plants based on blast furnaces are losing ground to new or existing electric steel capacities; this trend is already apparent in the USA.

The reasons are not hard to identify: Liquid pig iron produced by blast furnaces is becoming more and more expensive due to rising ore prices (although this also applies to direct reduction) but in particular due to higher coking coal costs. Coke production is associated especially with pollution problems, with the result that coking plants are becoming more difficult to operate and the costs are rising at a disproportionate rate. This is particularly true of the USA, which has had to import roughly 8 million tons of coke — mainly from the Federal Republic of Germany — in the last two years, in order to meet the domestic steel industry's requirements; and yet the USA possesses the largest coal deposits in the world!

The investment costs today for integrated steel plants of the conventional type are vast by comparison with electric steel plants based on scrap or with direct reduction. This demonstrates clearly the advantage of electric steel production for new plants from the point of view of capital spending, which is an important item in total steel production costs.

Today, $1,500 to $2,000 is the estimated cost per ton of annual capacity for a conventional integrated steel plant built on a green-field site, depending on infrastructure.

The comparable figures for a medium-sized electric steel plant based on scrap are equal to roughly 40% of this amount, and 60% for an integrated electric steel plant with direct reduction. These figures include rolling mills in each case, i.e., the investment costs relate to the production process from raw materials charge to the finished product.

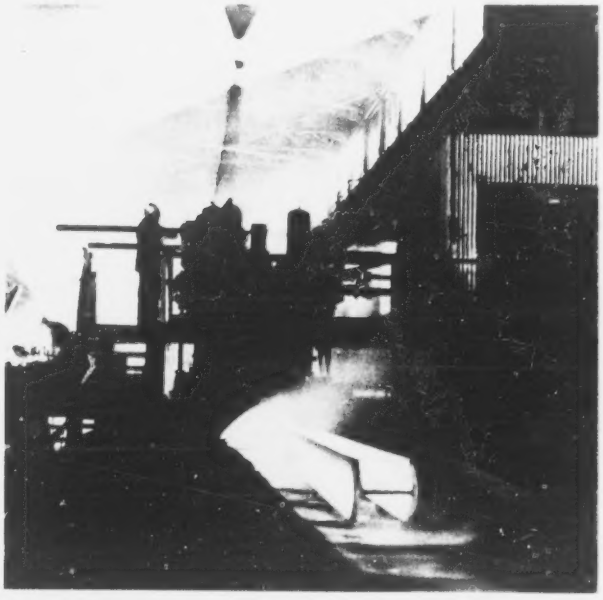
To return to the electric steel plants for a moment, I would like to mention a special phenomenon. There has been a substantial increase in their productivity recently, which has set completely new standards. Using water-cooled panels, scrap preheating, special oxygen injection techniques and ladle metallurgy, it is now possible to cut heat times from an average of 140 minutes for mass production of low carbon steel to 70 minutes and less. This means a doubling of liquid steel production per working day with the available facilities.

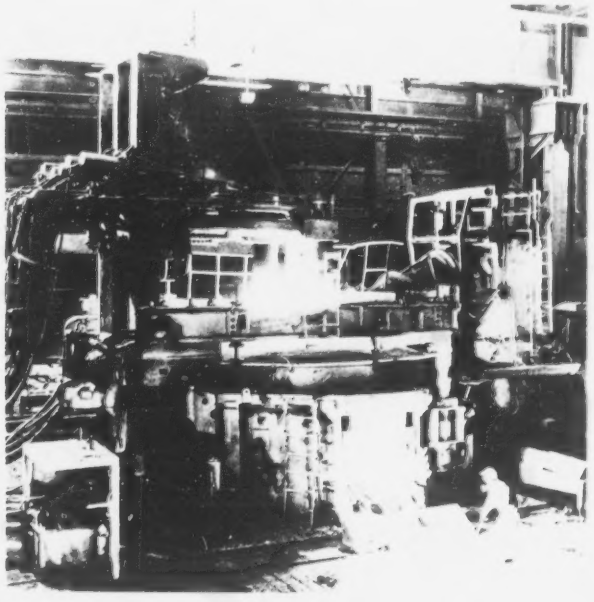
An additional advantage of electric steel plants is that they can be built up on a modular pattern (this applies particularly to plants with direct reduction) beginning with an annual capacity of 500,000 t, which can be increased indefinitely if necessary. In this way a steel enterprise can adapt its growth to the market situation better without being forced to sell large capacities suddenly.

It can be said in summary that there are many good reasons why electric steel production should increase, often directly integrated with direct reduction.

All in all, it can be stated that the combination of the electric steel plant and direct reduction has already proved successful in the industrialized countries and will become increasingly popular in the developing countries. These countries cannot afford to build huge integrated steel plants based on blast furnaces, nor is there a market for several million tons of steel overnight. Economically, the only justifiable steelmaking technique is consequently electric steel production combined with direct reduction.

The growth of the steel industry in the 1980's will therefore be characterized by the combination of direct reduction/





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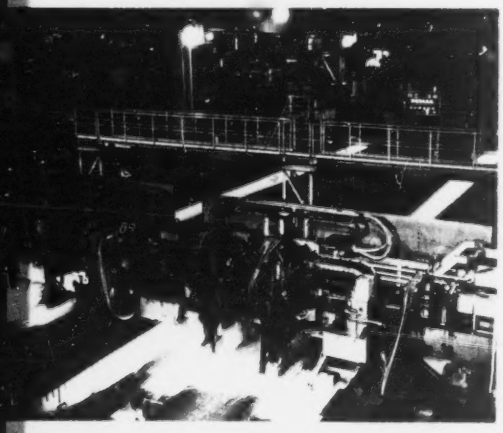

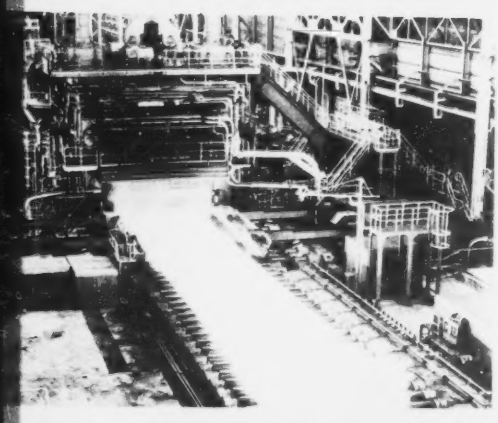

electric steel plant techniques.

This change in steel production technology is naturally having an impact on *demand for the charging materials scrap and DRI.*

While cold charge amounted to about 45% in the open-hearth process, it has been limited up to now to around 25% in the oxygen converter. The electric arc furnaces are, by contrast, operated with 100% cold charge.

New processes are currently being developed for oxygen converters permitting the percentage of cold charge to be increased from 20 to 50 or 60%. At the same time, continuous casting techniques are being employed more and more in the integrated steel plants based on blast furnaces, causing a drastic reduction in the home scrap produced by these plants.

Assuming that world steel consumption will increase by approximately 2.5% per year on average in the next ten years and that electric steel plants will account for 30% of world steel production by 1990, the importance of scrap and DRI is readily obvious. If electric steel production doubles by 1990, then twice the quantity of cold charging materials will be needed!

Declining availability of scrap

Now what about scrap availability in the future?

To be perfectly frank, I think there is a risk that the steel industry may not be adequately supplied with home scrap in the future, bearing in mind the probable development of electric steel production and oxygen converter techniques. I am not, however, concerned so much about the quantity as about the quality of the available home scrap.

I have already mentioned that as a result of continuous-casting and improvements in rolling mill technology due to larger yields, the steel plants' revert scrap supplies are steadily declining. I am talking about percentages of 8-10% in steel plants and 3-4% in rolling mills, i.e., substantial amounts. Much of the revert scrap so important for steel production on account of its high grade of purity and known chemical composition is lost in this way.

The availability of *industrial scrap* such as tin plate, clippings, trimmings, turnings, bundles, etc. is also declining as steel processing is further sophisticated and rationalized. The question remains of how supplies of *capital or reclaimed scrap* can be increased without raising prices unduly or lowering quality. Here are a few thoughts on the subject:

Many of the so-called capital scrap sources such as ships dating from World War II, disused railway tracks, etc. have disappeared. On the other hand, there has been an appreciable increase in the number of automobiles in the last 20 years, which is currently having a favorable impact on capital scrap availability. As a result, scrap is becoming increasingly contaminated: automobiles containing more and more alloys and tramp elements which complicate the meltdown process.

The typical European car today has a copper content of over 2%. In order to reduce this sufficiently for the scrap to be used for the production of wire rod in an electric steel plant, for instance, it must either be processed in a shredder or a substantial quantity of sponge iron must be added to the scrap during meltdown.

Cars nowadays contain over 5 kg of zinc as an anti-corrosion measure and this represents an additional problem. During meltdown the zinc evaporates and is oxidized in the furnace waste gases, entailing higher expenditures on waste gas cleansing.

As regards scrap contamination in general, the opinion is held in the USA that the quality now regarded as number 1 corresponds to the quality that was number 2 ten years ago. This applies, as I have just said, to the USA. Other experts maintain that scrap contamination in Europe is three to five years ahead of the USA, i.e., the problem of low-grade scrap is already greater for European steelmakers.

Regardless of these considerations and forecasts, scrap will remain the major raw material for electric steel production. Direct reduced iron will nevertheless become increasingly significant, also from the price angle. Whereas scrap prices always vary and price trends are just as hard to predict as shares on the stock exchange, producers of DRI operate on a fixed calculation basis due to long-term purchase contracts for ore and energy. The price of DRI sold by merchant plants is thus a calculable factor for steel mills with long-term supply contracts. (Chance purchases of spot quantities of scrap will, however, always be based on the current scrap price.)

A very important aspect concerning scrap availability is the fact that only few areas in the world possess excess quantities, whereas most consumer countries must import scrap. The USA, the Federal Republic of Germany, France and Eng-

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land are the main exporters of scrap in the Western hemisphere; total world exports amount to nearly 25 million tons per year.

At present, the USA accounts for 40% of worldwide scrap export. It remains doubtful whether America will be capable of maintaining this considerable export quantity in future. Increased electric steelworks in the USA and the conversion to continuous casting in the integrated steel plants will eventually lead to a greater domestic consumption of scrap. It is known that enormous scrap reserves are under discussion in America. Whether or not these reserves can actually be made available when the market requires them remains to be seen.

The Federal Republic of Germany is a pioneer in the field of the earlier mentioned, newly developed oxygen converter technology which allows for considerable cold charge. For this reason it is probable that more and more scrap will be used in the country itself and that exports to neighboring EEC countries, especially to Italy, will decline.

Direct reduction capacity

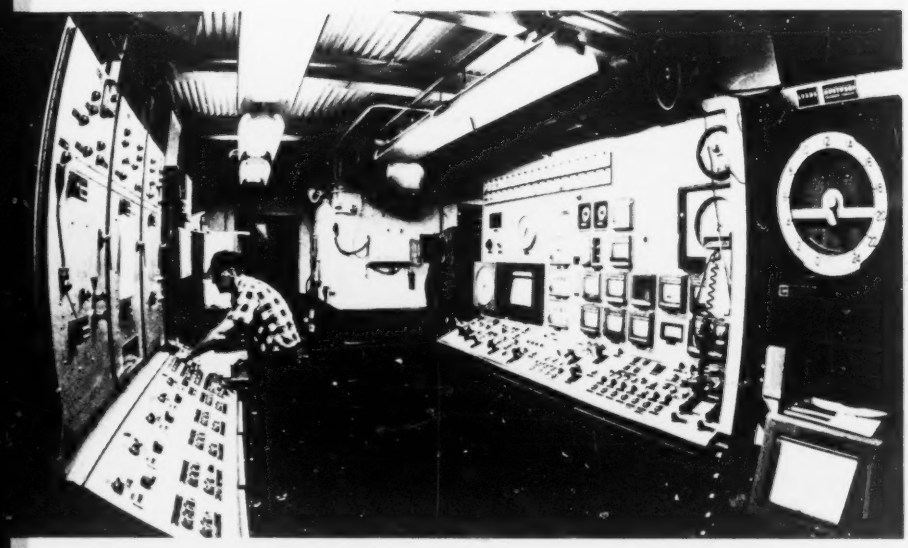
I would now like to comment in general on direct reduction and further developments in this field:

After ten years, direct reduction has now finally been established as a process for extracting pure iron from iron ore. Various other procedures based on coal as well as on natural gas were developed. Of these, however, those based on natural gas prevailed, though only few of them were actually successful considering the number of procedures offered on the market ten years ago.

The most successful is the MIDREX process with capacity currently totalling 19 million tons per year around the world. Some of this capacity is in operation, some is being constructed and for yet another part of this capacity contracts have been concluded. MIDREX's share of the market thus amounts to approximately 60%.

Total direct reduction capacity erected and in operation in 1980 totalled about 15 million tons as against a production of only 7.1 million tons. The fact that barely 50% of total capacity was utilized must be attributed to process difficulties at some plants. This clearly does not apply to MIDREX plants which worked at over 90% of their nominal capacity.

An increase of 30–35 million tons by 1985, and 60–70 million tons by 1990 is anticipated in worldwide direct reduction capacity, which is not overwhelming



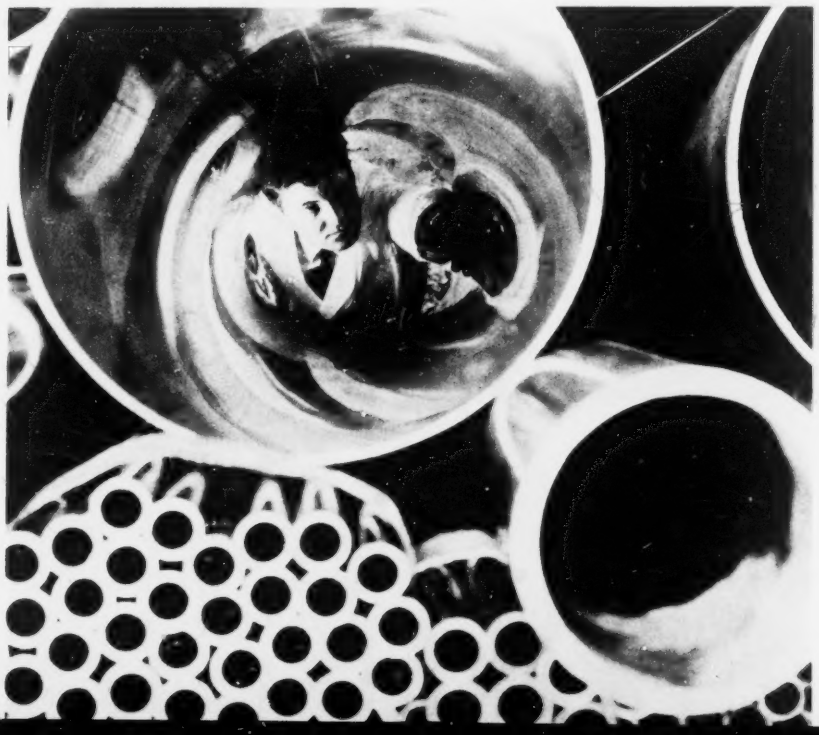
compared to the world's total production of steel and the charge requirements of electric steel plants.

Reoxidation, which sometimes occurs due to incorrect handling of direct reduced iron, poses a transportation problem which will be solved either by treating the DRI chemically, as by MIDREX's "Chemaire" method which is applied by Norddeutsche Ferrowerke in Emden, or by hot briquetting.

Other than the direct reduction processes based on natural gas, new processes based on coal gasification will be developed soon. This will allow for a greater choice of locations for direct reduction plants. Countries with large deposits of coal will benefit from this development.

Quite often direct reduced iron is erroneously regarded as a substitute and thus as a competitive article to scrap. The price of DRI is often compared with the price of scrap for this reason. As I explained earlier, the steel industry's cold charge requirements will nearly double by 1990; this demand could probably not be satisfied with scrap alone. Thus, direct reduced iron must not be seen as a competitive article to scrap but rather as a supplementary product. DRI does have the advantage that its quality varies little and that the production costs are relatively stable, depending on the price of iron ore and energy at any given time.

Since Europe's steel industry is currently experiencing a recession, the price of scrap has gone down, with the result that the price of direct reduced iron is comparable to that of high-grade scrap. As soon as the steel business recovers and profits can again be made in the steel industry, which are needed to cover the costs, the scrap price will rise sharply and direct reduced iron's competitive position will change abruptly. It is by all means conceivable that purchasers of this product who have concluded long-term supply agreements will be able to obtain DRI for less than scrap.



In conclusion, I would like to recapitulate: Despite the prevailing crisis in Europe, the world's total steel consumption and production will continue to grow in the Eighties, though perhaps less than in the last 20 years. In future, this growth will mainly take place in developing countries.

Electric steel production will probably increase to 300 million tons per year by 1990, which would be twice as much as current production.

This development involves much greater cold charge requirements which cannot be satisfied by scrap alone.

Therefore, direct reduction will gain considerable importance as an integrated part of newly constructed steel plants as well as in connection with Merchant Plants, which are erected in areas with cheap sources of energy, i.e., natural gas. From these locations the new raw material DRI will be delivered to numerous electric steel plants as well as integrated steel plants, where it will be fed into oxygen converters, and foundries. The transportation problem will be solved either by chemical treatment or briquetting.

Further developments in the direct reduction process will be made towards using simpler and cheaper coal as charge. This will make direct reduction more suitable for regions where cheap natural gas is not available.

Scrap and DRI should not be regarded as competitive articles but rather as necessary supplementary commodities.

Even though the price of scrap appears lower than the costs for direct reduced iron due to the momentary steel recession in Europe, it is likely that the prices of these two products will soon be on the same level. Also, it is by all means possible that the price of scrap will exceed the costs of DRI; as in 1979 this has been the case before.

I for my part am in favor of the scrap industry, the operators of direct reduction plants and scrap industry cooperating closely. This is the only way of ensuring optimum financial results for all parties involved.

Licenses and Investments

Licenses

Firm is interested in a licensing/joint venture agreement for the production of **marzipan or similar candies**. The company was established in 1889 and employs 70 people. Horst-Theodor Kayser, Kayser Marzipan, An Der Huelshorst 12, 2400 Luebeck 1; tel.: 0451-32766.

A specialized manufacturer of a wide variety of telephone equipment seeks a license to produce **telephone instruments, intercoms and small pabxs**. Dipl.-Ing. Peter Ludewig, General Manager, Bosse Telephonbau GmbH, Reichenberger Strasse 78-80, D-1000 Berlin 36; tel.: (030) 61-80-01.

Seeks licenses from U.S. firms for production processes and equipment for manufacturing **activated carbon**. Firm is particularly interested in applications for water purification, waste water treatment, air purification, recycling of solvents and purification of fats and chemicals. Principal activities of the company include the exploration and production of oil, gas, uranium and peat, services for the mining, oil and construction of industrial plants and the manufacture of machines and equipment. Has staff of 1,100 and yearly sales of $480 million. Dr. Heinrich Grumpelt. C. Deilmann AG, 4444 Bad Bentheim 1, West Germany.

Seeks licenses to manufacture **hard surface cleaners for airplanes**. This hard surface cleaner for aluminum surfaces of airplanes should have passed all tests required by the airlines. The German company does not have the facilities to carry through such tests. Established in 1975, employs 35 and specializes in the production of hard surface cleaners and other cleaning products for industrial application. The company's main customers are Lufthansa and other airlines. Dr. Wack, Manager, Dr. O.K. Wack Chemie GmbH, Bunsenstrasse 6, D-8070 Ingolstadt; tel.: 0841 — 69076.

Joint ventures

Photoelectric controls and light barriers. German manufacturer of photoelectric cells and light barriers. Interested in a partner in Chicago, St. Louis, New York, or Boston with both production facilities and developed U.S. distribution network. Established in 1950, employing 300, this German firm has annual sales of $15 million, and competes in the U.S. market. Interested parties should contact: Bernhard B. Clermont, American Consulate General, Cecilienallee 5, 4000 Duesseldorf.

Rolling shutters which can be quickly installed in new and existing homes and can help save energy and protect property against burglary. Firm would be interested in discussing with U.S. firms in the construction or affiliated industries a possible joint venture or other kind of cooperation. Commerical Section, Telegram 0848, American Consulate General, Urbanstrasse 7, D-7000 Stuttgart.

Natural-biological pharmaceuticals and diet foods. This company, a leading manufacturer in the field, is interested in discussing with American pharmaceutical manufacturers possible cross licensing agreements. Rudolph Knoedler, Business Manager, Johann George Fink GmbH & Co., Daimlerstrasse 3, D-7033 Herrensberg.

Investments

Wood working plant located along the east coast. Firm seeks a small to medium-size plant with approximately 15 to 20 workers making housing components, e.g., roofing, window frames, doors, floors, ceilings. The plant should be considering expansion, and firm is prepared to invest a minimum of $50,000 in that endeavor. Interested parties should write directly to: Willi Gaigl, Zimmerei-Saegewerk, D-8011 Forstern. 1E.

VW of America car dealership. Firm interested in either purchasing an existing car dealership or establishing a new one for the sale of cars from VW of America. Business manager of the firm plans to visit the United States June 2-16 and will meet with VW of America in Englewood, N.J. Firm is not interested in overcrowded regions; prefers medium-sized cities somewhere along the East Coast. Contact: Josef Wagenblast, Business Manager, Autohaus Wagenblast, Lorcherstrasse 25, D-7070 Schwaebisch Gmuend.

Dairy products (fruit yogurt, milk shakes, ice cream, etc.). The firm expects a demand for its products throughout the United States, so the U.S. partner should have a well-established national sales network. The firm is also considering setting up its own production facilities. Its geographic interests favor New York and the East Coast, but is prepared to discuss other areas as well. Mr. Bussien, WILD Group of Companies, Rudolf-Wild-Strasse 4-6, D-6901 Heidelberg-Eppelheim.

Plastic frame windows said to be soundproof, energy-saving because of their special insulation, and corrosion resistant. Rudolf Michael Groeber, Akumed Gesellschaft fuer Aussenhandel, GmbH, Ferdinand-Maria-Strasse 30, D-8000 Muenchen 19.

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Industrial Revenue Bonds:

Possible Restrictions?

Dr. Gregor Medinger

Financing of private enterprise through the government, such as federal states or municipalities, has a tradition reaching back to the beginnings of the canal and railroad construction of the nineteenth century. Some companies so financed failed, and caused a number of small communities to default. This then led to a general prohibition of this type of financing at the end of the last century.

The introduction of income taxes in the year of 1913, however, excluded interest income on debt obligations of states and their political subdivisions from taxation by the Federal Government, resulting in comparatively lower financing costs for these issuers.

In 1939, the State of Mississippi introduced Industrial Revenue Bonds as an instrument to finance private projects. As the owners or sponsors of the private projects were responsible for the payment of the principal and interest, the earlier prohibition against state financing of private industry did not apply, as was later confirmed by a decision of the Supreme Court.

In the Sixties, an increasing number of states followed suit and authorized the issuance of IRB's, which, due to rising interest rates as well as increased taxation, found the growing attention of obligors as well as investors. Subsequently, the Revenue Expenditure and Control Act of 1968 introduced considerable restrictions. The tax exemption was basically confined to financing of certain priority purposes specified in the law. Of those, the most important are:

- Pollution control projects
- Ports and public warehouses associated with them
- Power plants
- Mass transportation
- Refuse recycling plants
- Conference centers

All other facilities for commerce and industry have been limited since then to a maximum amount of $1 million financing, with an exemption authorized shortly thereafter for small projects, for which the total qualified capital expenditures, during a term of 6 years, may not exceed $5 million. This ceiling was increased to $10 million in 1978.

The opinions expressed included demands for complete elimination of IRB financing or severe restrictions such as introducing state ceilings in the form of a fixed dollar amount of IRB financing per inhabitant per year, or permitting IRB's only in distressed areas.

Great attention was given to a report prepared by the Congressional Budget Office on behest of Rep. Gibbons of Florida, a long-time foe of IRB financing, which calculated substantial future tax losses from a projected rapid expansion of IRB use.

Other testimony was presented, however, showing that the net effect of IRB's from higher employment and additional economic activity was either a small loss in tax revenues or possibly even a small increase in tax receipts. Due to the strong support which IRB financing received during the hearings, subcommittee sources indicated that the idea of a state ceiling would be dropped and that restrictions would primarily concern commercial uses, such as retail facilities.

Unexpectedly, the Oversight Committee approved quietly an amendment to the tax proposal of the Democratic majority in the House which would

- abolish the tax exemption for small issue IRB's after December 31, 1983;
- permit IRB projects, except for hospitals, nursing homes and narrowly defined manufacturing facilities, to be located only in economically depressed areas (which qualify for Urban Development Action Grants); and
- exclude from manufacturing such activities as assembly operations or associated warehousing, administrative and retail facilities.

In view of the strong protests by companies and groups opposed to any restrictions, the House Ways and Means Committee decided not to include the IRB restrictions in the present tax package but rather to wait until the fall when a second tax bill will be discussed.

The delay will also allow for a full public discussion of the alternative proposals by Rep. Gephardt, also of the Ways and

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Dr. Medinger is managing director of Associated European Capital Corporation, the U.S. investment banking affiliate of Bayerische Vereinsbank (Union Bank of Bavaria). He recently testified in Congress at hearings concerning IRB financing.

Means Committee. These would increase permissible amounts in UDAG-qualified areas to $5 million and $25 million respectively and also permit entertainment, recreation and restaurant facilities only in these areas, but otherwise include only minor changes to the present legislation.

Nevertheless it appears today that sentiment in Congress, at least in the House of Representatives, tends to favor restrictions, possibly severe, on the future issuance of IRB's. No position of the Reagan Administration has been formulated so far and the U.S. Treasury Department has indicated its readiness to study the issue. Further restrictions might well affect many subsidiaries of German companies since for small and medium-sized companies the still existing possibility of financing at low fixed rates for a term of twelve to fifteen years is of particular interest.

In spite of the narrow market, the placement of bonds, if properly planned right from the start, is still possible within a few weeks and therefore saves expensive interim financing. Also, innovative ideas have been developed recently to lower the cost of financing, such as applying parameters other than the prime rate as a base for variable interest rates.

As IRB financing has permitted many smaller and medium-sized companies to establish manufacturing or distribution facilities, many jobs were created which otherwise might have been lost to the U.S. economy. It is therefore hoped that those who oppose restrictions which would make direct investment for European companies more difficult will be successful in their efforts. ■

The Maho Machine Tool Corporation, a subsidiary of Maho Werkzeugmaschinenbau Babel & Co., Pfronten, West Germany, recently constructed an assembly facility in Connecticut which benefited from low-cost fixed-rate IRB financing.

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A Future In Foreign Markets

Barton L. Weller

Mr. Weller founded Vitramon, Incorporated in 1948 and has served continuously as chairman and president. A graduate of the University of Denver (1938) with a B.S. degree in Physics, he studied further at the Central Scientific Company in Chicago and at the Massachusetts Institute of Technology. He is a member of the Electronic Industries Association, a director since 1959 of the EIA Parts Division and past chairman of the Fixed, Glass and Vitreous Capacitor Section. He holds 14 patents for electronic components.

(EDITOR'S NOTE: In our March-April Chamber Commentary, we suggested that a cure for the economic malaise of the West would be to "draw upon our strengths of individualism, pluralism, and innovation to increase productivity and raise the intelligence quotient of our technology." Shortly after these words were published, we became aware of a company whose performance embodied many of those characteristics. Because the solutions to many of our economic problems must essentially come from the private, rather than the public sector, we invited the president of Vitramon, Incorporated, Monroe, Connecticut, to share his story with our readers.)

Vitramon, Incorporated is a manufacturer of quality monolithic ceramic and porcelain capacitors which are widely used in electronic equipment. The company is 33-years old and annual sales are running around $20 million. Half of our revenues come from overseas, and we have plants in England and West Germany in addition to our primary facility in Monroe, Connecticut.

That's a thumbnail sketch of where we are today. Getting to this point hasn't been easy, but we've stuck to a few basic principles, been willing to take risks, learned from our mistakes, and had the benefit of a productive, dedicated work force.

In many respects, ours is a classic entrepreneurial situation which has grown into a professionally-managed company. My background is in nuclear physics and, during World War II, I worked on the Manhattan Project as an employee of DuPont. The company was doing initial research into a porcelain capacitor, and when it elected not to pursue commercial development of the product, they gave us their "blessing" to do so.

Capacitors are one of the basic building blocks in electronic circuits, like transistors, resistors and coils. Their purpose is to store electrical energy. Our monolithic ceramic capacitors are constructed similar to a club sandwich. Layers of dialectric materials (porcelain or ceramic) alternate with electrodes (metal plates). Electrical energy is stored

in the dielectric and conducted by the electrodes. The amount of energy that the capacitor can store is determined by the type of the dielectric and the size of the electrodes. The world market for monolithic ceramic capacitors alone is now more than one-half billion dollars, with $100 million coming from Europe.

A difficult genesis

That wasn't the case in 1948, when Vitramon, Incorporated began operations in my cellar in Easton, Connecticut. After many sales calls, we received our first order in 1949 from the U.S. Bureau of Standards. It had a value of only $1,000, but it was a beginning. We survived a fire which wiped out our inventory and, by 1953, we were on the way as our new porcelain product found a market in diverse military end-uses and in the police radio field.

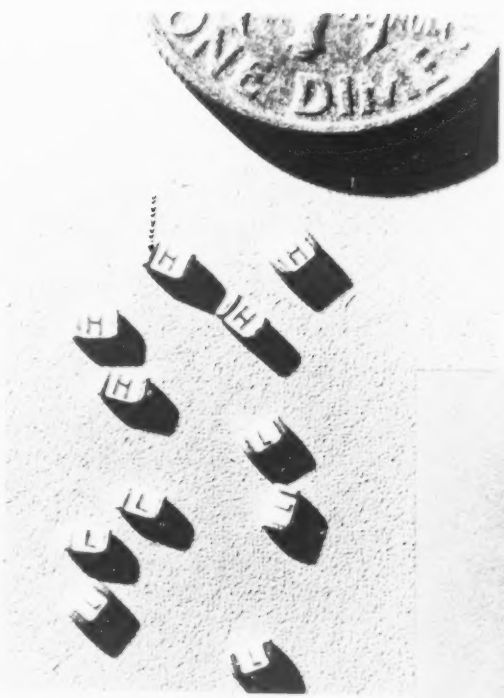
During the next 17 years (up to about 1970), the company grew. Among our achievements was the development of the first and best porcelain capacitor in the world — unmatched for stability and reliability. That's why it is our understanding that every NASA flight has relied on Vitramon, Incorporated capacitors in its electronic systems.

Equally important, we began to develop our international operations. In 1962 the company formed the first of several wholly-owned foreign subsidiaries, Vitramon Laboratories Limited (now Vitramon Limited) in England. Initially a two-man sales office, this operation has been expanded to a 20,000 sq. ft. manufacturing and sales facility in Wooburn Green, with 160 employees serving Europe and the Middle East. Continuing this overseas expansion, Vitramon Pty Ltd., Australia, was set up in 1967 to provide sales representation to that country and parts of the Far East.

Vitramon, Incorporated had its first and only public stock offering in 1960, with the sale of 103,512 shares of common stock available at $10 per share. We had made a policy of making our stock available to the employees when we were a private company. This gave some of our original investors the means to buy their own homes — a fact I've never forgotten. The essence of capitalism is to provide rewards for people who produce.

Growth, however, did not come without problems. In 1970 we found that 85 percent of our sales were coming from the military and aerospace fields, which were soon to slump drastically.

We decided to reverse this position by



offering monolithic ceramic "chip" capacitors for the more lucrative industrial and commercial markets. Electronic technology was (and is) advancing geometrically, and new applications were evolving virtually on a daily basis. Because ceramic dielectrics have a much higher capacitance per unit volume than porcelain and are available in a wide variety of temperature characteristics, we selected them to meet these new market demands.

The growing importance of miniature "hybrid" electronic circuits — which utilize scores of chip capacitors was also a factor in making this decision.

The spur of competition

Since then, we have secured a leadership position in the ceramic "chip" capacitor market (about a 20 percent share). Today, ceramic capacitors have the fastest-growing rate of all capacitors.

We learned from experience and automated our production line to maintain our competitive position, an increasingly important consideration as major Japanese, European and American manufacturers have entered the market in recent years. The growth of our "chip" sales also reversed the company's business "mix". Today, 85 percent of our sales are garnered in commercial/industrial markets and the remainder from military and government business — a complete reversal of 10 years ago.

Overseas expansion continued during the '70s. A third foreign operation, Vitramon Japan Limited, was formed in 1973. Vitramon, Incorporated was one of only nine U.S. electronic companies allowed (at that time) to establish wholly-owned subsidiaries in Japan. Our sales office in Japan remains small, but we are considering establishing manufacturing facilities there over the long-range. At that time, we will retain our sole ownership, rather than enter into a minority partnership or joint venture with a Japanese company. We feel our growth is best served by retaining control of our technology.

The formation of Vitramon GmbH in 1974 was our most important international step in the last decade. West Germany accounts for about 40 percent of all European capacitor sales, and its advanced electronics industry was a logical market for our "chip" capacitors. We began with a small sales office in Backnang (near Stuttgart) and, after the necessary introductory period, volume grew rapidly.

The German automotive industry became a major market. Previously, au-

tomotive electronics had been restricted to entertainment use (car radios) and the components purchased for those functions tended to be sold on price, rather than reliability. But the German automotive industry was a pioneer in the development of electronics which controlled a growing percentage of vehicle systems, such as ignition systems and truck anti-skid braking devices. As soon as reliability became a factor, Vitramon, Incorporated became a preferred product.

The rapid development of the German automotive electronic market preceded that of its counterpart in the U.S. NEWSWEEK magazine believes that an "electronics revolution is coming to the automobile," and eventually "almost everything you can think of in a car will be going electronic." As proof, the magazine noted that General Motors was making a $750 million investment in automotive electronics.

The global connection

Our German experience offers a good example of how Vitramon, Incorporated approaches all its overseas markets. We begin with the establishment of a sales office, staffed by native management, to determine market size and potential. Product is supplied by our U.S. plant and, in some cases, our British facility. When we are satisfied that the market has significant long-term prospects, we establish manufacturing operations in-country. We do not allocate our capital budget on a quarter-by-quarter basis to achieve favorable short-term earnings comparisons, but make investments which we believe will provide revenues and net income for years into the future.

That's why we decided to build a 25,000 sq. ft. manufacturing plant in West Germany. Construction was completed on schedule this year and we are now installing the most sophisticated production equipment available. We expect the plant to begin manufacturing by the end of 1981 and to employ about 100 people.

We are not particularly distressed by the current slump in the West German economy, in general; or the automotive industry, in particular. It had always been our intent to phase-in local manufacturing gradually.

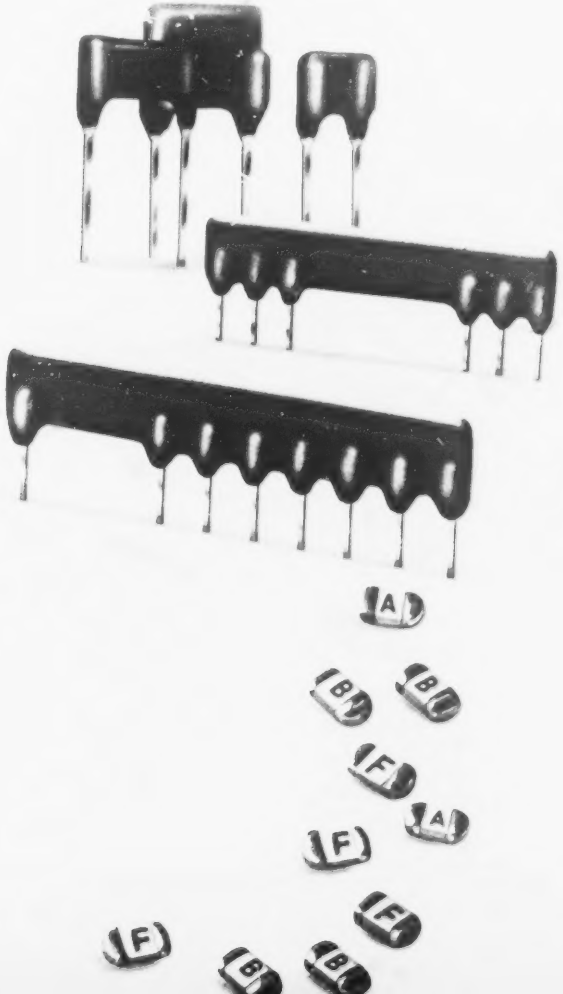
Subsequently, we established Vitramon France S.A.R.L. in 1975 and have been very favorably impressed with the growth of the French electronic industry. We have purchased land in Vendome for the eventual establishment of a manufacturing operation and will soon lease a factory site for initial assembly operations. The company also began operations in South America in 1977 with the formation of Vitramon do Brasil Ltda. Subsequently, that subsidiary leased its first factory site in Sao Paulo, began production operations, and acquired a tract of industrial property for future expansion.

Our commitment to a global marketplace has resulted in half of our business coming from overseas in recent years.

Planning — in terms of people, production equipment and products — is absolutely critical now. Our sales have increased from $3.7 million in 1970 to $8.8 million in 1976 and $20.5 million last year. Equally important, the monolithic ceramic capacitor industry, which we pioneered, is maturing rapidly. Customers are now using our capacitors for many more applications as industry continues to shift from mechanical to electronic controls. New industrial and professional markets for quality electronics are also evolving: telecommunications, computers, radio communications, machine tools and, of course, automotive. Therefore, a primary goal of our company is to be in a position to produce billions of chip capacitors per year, instead of millions.

To increase production capacity, our capital expenditures for 1980 equalled those of the three previous years combined. Our capital budget for 1981 is even larger. In terms of products, we have introduced a new capacitor, the "VP" Ceramic, for a new range of markets.

In conclusion, the products we manufacture have the fastest growth rate of all electronic components. Ten years ago, the market for ceramic capacitors was less than one-third its current size and almost exclusively situated in the U.S. Today, the market is worldwide and we see multi-billion dollar European companies actively involved. However, American firms seeking to do business overseas should not be deterred — U.S. business has always thrived on quality competition and free trade. ■



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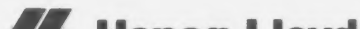

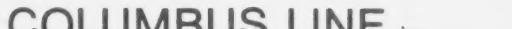

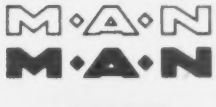

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